



EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

GERMANY

A chance to end a divided Europe

Page 19

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Tuesday April 17 1990

World News

Mandela rejects all concessions to Pretoria

Nelson Mandela rejected all concessions to the South African regime when he addressed a concert in London. He urged a one billion-strong worldwide television audience to step up the fight against apartheid. In an implicit criticism of British Prime Minister Margaret Thatcher, the deputy president of the African National Congress attacked those who want Pretoria rewarded for recent reforms.

India and Pakistan appear to be trying to defuse tensions that have brought them close to war. Their foreign ministers are due to meet at a United Nations special session in New York next week. Page 20

Train fire kills 100

At least 100 people were feared dead in a fire that swept through a crowded train near the north Indian city of Patna. Fire also engulfed India's main conference centre in New Delhi.

Nepal king yields

Nepal's King Birendra bowed to a two-month opposition campaign and opened the way to multi-party democracy by abolishing the main elements of the country's partyless political system. Page 20

Ferry 'abandoned'

The chief officer of the Scandinavian Star ferry told a maritime inquiry in Copenhagen he knew passengers were still alive aboard the blazing vessel when he and the captain abandoned it in lifeboats early on April 7. The fire killed 161.

US troop cut plan

The US Army has drawn up plans which would eliminate one in four uniformed soldiers by 1997, cutting active duty personnel from 784,000 to 580,000. Page 2

Dole upsets Israel

Israeli officials reacted sharply to statements by Senator Robert Dole that he wanted the US Senate to rescind a resolution recognising Jerusalem as Israel's capital and felt US aid to Israel should be cut. Page 3

Bucharest brawl

Rival groups kicked and punched each other during demonstrations for and against Romania's ruling National Salvation Front in Bucharest. Page 4

Slovenian right wins

A centre-right coalition ousted communists from power after 45 years in Yugoslavia's Slovenian republic. Page 2

Captives freed

Mozambican Renamo rebels said they had released Dudley Searle, a Zimbabwean businessman, and David Stephenson, a South African professor, seized in a raid in February.

Natal death toll

A South African soldier and a British-born policeman were among 11 people killed in 24 hours as black factions fought for political supremacy in Natal province. Page 3

Polisario threat

Polisario's top guerrilla commander Ibrahim Ghali said fighting with Morocco could resume in the western Sahara at the end of the Muslim holy month of Ramadan. He blamed Morocco's 'transgression'.

Brazilian denial

The new head of Brazil's nuclear energy commission said the country would not build a nuclear bomb, but he declined to say whether it had the technical ability to do so. Collier's progress, Page 2

Helicopter downed

US-backed UNITA rebels shot down a military helicopter in northern Angola, killing its three occupants, the Portuguese news agency Lusa said.

Fatal feast

Contaminated flour was blamed for the deaths of at least 87 people after an engagement feast in a northern Indian village near Lucknow, in Uttar Pradesh.

Garbo dies at 84

Greta Garbo, the actress who went on from silent movie stardom to a glittering 'talkies' career, died at 84 in a Manhattan hospital.

Test-tube camels

The world's first test-tube racing camels could soon be speeding across the deserts of the United Arab Emirates, according to genetic experts in Abu Dhabi.

Business Summary

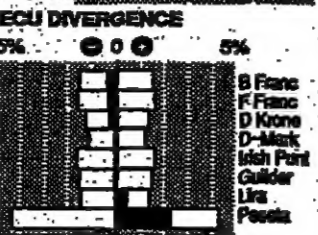
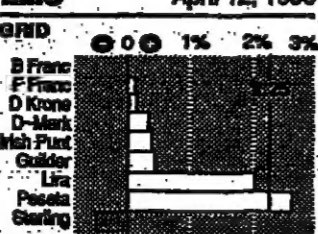
Wasserstein Perella plans joint fund with Paribas

Wasserstein Perella, US merger and acquisition specialists, and Banque Paribas of France are joining forces to launch a fund exclusively to invest in mezzanine financing in Europe.

At \$68m, the fund will be the largest in Europe to provide such finance for corporate acquisitions and buy-outs. Page 21

EUROPEAN Monetary System: Trading within the EMS was quiet last week as attention focused on the depressed Japanese yen. The D-Mark was relatively weak on nervousness about possible inflationary implications of German monetary union. It touched the lowest level against the French franc since October 1987, helping to keep pressure off the system. Currencies, Page 28

EMS April 12, 1990



The chart shows the constraints on EMS exchange rates. The upper grid, based on the system's weakest currency, defines the cross-rates from which only the peseta may move by more than 2% per cent. The lower chart shows currencies' divergence from the central rate against the European Currency Unit (ECU), itself derived from a basket of currencies.

MARKETS: On Wall Street, the Dow Jones Industrial Average ended 11.58 points up at 2,763.06. Tokyo share prices closed down. The key 225-share Nikkei index tumbled 750.74 points to 28,483.18.

US Government review of deposit insurance will consider the whole context of bank powers, regulation and supervision, the White House confirmed. Page 20

IBM announced first quarter results which were far better than market expectations, with net earnings rising by 9 per cent. Page 21

DATA PRODUCTS, US computer printer manufacturer, has agreed to a \$160m takeover by Hitachi, the Japanese electronics group. Page 21

YUKONG, South Korea's largest oil refiner, is to issue \$75m of bonds with equity warrants to finance exploration and production. Page 25

EMINENT Persons Group on World Trade said failure of the General Agreement on Tariffs and Trade's Uruguay Round could leave 'chaos and impoverishment as its legacy.' Page 3

FOKKER, Dutch aerospace group, unveiled a sharp increase in profits for the year, largely because of decreased financing charges. Page 25

SOUTH KOREA has announced measures aimed at curbing real estate speculation and the sharp increase in land prices. Page 9

FINANSBANK of Turkey has acquired a majority interest in FPG Privatbank Geneva from FPG Privatbank Zurich, following approval by the Swiss Federal Banking Commission. Page 25

UPJOHN, US pharmaceuticals company, reported an 11 per cent advance in first quarter net to \$114.3m against \$103m in 1989. Page 26

MGM/UA, Hollywood film and TV studio, the subject of a \$2.26bn tender offer by Pacific Communications, reported a net loss of \$9.8m for the second quarter of 1990, compared with a loss of \$14.7m a year earlier. PRIMERICA, US financial services conglomerate headed by Sandy Weill, announced first quarter net income of \$83.2m. Page 25

GRAND Metropolitan, UK food and drinks group, completed the sale of 556 Wimpy fast food restaurants to a management group for an undisclosed sum believed to be about £20m (\$32.9m). Page 26

Brussels weapons group involved in Iraq 'gun' order

By Victor Mallet and David White in London

BRITISH customs officials investigating a suspected giant gun have established that Iraq's orders with two UK contractors for the project were placed through Space Research Corporation, a Brussels company known for its weapons expertise.

Sheffield Forgemasters, accused by customs of making the barrel for the supposed gun, insisted yesterday that eight sections of pipe seized last week by Customs and Excise on the docks at Teesside, Middlesbrough, were for a petrochemicals plant, but confirmed that SRC was involved in the contract.

Walter Somers, the West Midlands forging company also under investigation by customs, declined to comment on any links with SRC yesterday. Forgemasters, however, said the first meeting to discuss the contract with SRC took place at Walter Somers.

According to Forgemasters, SRC was represented during the negotiations, which began in 1988, by Dr Christopher Cowley, not by Dr Gerald Bull, the Canadian who founded the company and had a lifelong obsession with artillery. Dr Bull, who recently visited Iraq, was shot dead with a silenced pistol in Belgium last

month. Dr Cowley shared out the work between Forgemasters and Walter Somers, according to Forgemasters.

Forgemasters also said it had documentation proving that it had informed the Department of Trade and Industry about the SRC connection, and showing that the DIT had said no export licence was required. The DIT declined to comment.

The eight sections seized at Teesside are of varying thicknesses with a constant one-metre bore - consistent with the Customs and Excise theory of a 40-metre long gun barrel - but Forgemasters said they would not fit together

because they made up various sections of a much longer 26-part assembly.

When asked about this, a customs official said "nobody has unpacked them yet, although an expert from the Ministry of Defence investigated the piping last week and concluded that it could be used for a gun barrel."

Last night Forgemasters said it was not obliged to prove or disprove the ultimate purpose of the tubes. Iraq has already paid for the latest batch of eight. It was therefore up to Iraq to decide if it wanted to appeal against the seizure of its property, the company said.

Forgemasters said it had made inquiries in the past to establish SRC's bona fides and found that SRC had been involved in several petrochemical contracts. SRC officials were not available for comment yesterday.

SRC has crossed swords before with the British Government over Iraq's attempts to develop technology with military applications. Last year SRC Composites, a joint-venture between SRC and the Iraqi-owned Technology and Development Group, pulled out of a sophisticated composites plant in Belfast following pressure from London.

Whitehall officials are divided about the nature of the pipes, and the Labour Party has called for clarification. Several questions remain unanswered. The site of the pipes' petrochemical plant, for example, has not been disclosed.

Nor is it known why Iraqi correspondence to Forgemasters about the project was conducted through the "Ministry of Industries and Minerals". No such ministry is known to exist, while the telephone numbers on the headed notepaper from Iraq are those of the Ministry of Industry and Military Industrialisation. Iraq 'big gun' inquiry, Page 3

Lithuania calls for talks with Moscow over independence

By John Lloyd in Moscow

THE LITHUANIAN Government yesterday called for talks with Moscow on independence but refused to retract its declaration of independence.

The offer of talks followed the threat by Moscow to impose a package of economic sanctions against the rebellious republic. The deadline set by Mr Mikhail Gorbachev, the Soviet President, passed on Sunday night. But by yesterday afternoon, the Soviet authorities had not imposed any measures.

Mrs Kazimiera Prunskiene, the Lithuanian Prime Minister, last night sent a telegram to Mr Gorbachev, and Mr Nikolai Ryzhkov, the Soviet prime minister, asking for clarification of their letter which said that supplies of oil, gas and other supplies would be cut off from yesterday if the declaration of independence were not rescinded.

The telegram was drafted after a meeting of the Presidium of the republic's Supreme Soviet. A Lithuanian Government official said last night "we don't really understand what a plan of economic sanctions entails. The letter to the Lithuanian Government was not very detailed. We're asking to sit down and talk about it."

Asked if the Lithuanian side was prepared to make concessions, the official said "We've not set any conditions. But the only thing we're willing to discuss is the fact of independence, not on cancelling it. We've nothing to compromise on that."

The substantive Lithuanian response will come today when the issue is discussed at a session of the Supreme Soviet. It appears, however, that the republic's Government is playing for time by asking for clarification, while at the same time giving away nothing of substance.

Earlier yesterday, Mrs Prunskiene said that the Soviet message "represented a softening because there was no mention of Presidential power and no necessity of rescinding the declaration of March 11 (when independence was declared)."

Mrs Prunskiene, and other republican leaders and spokesmen, have heavily emphasised their willingness to make concessions to the Soviet side on issues such as the ending of the draft to the Soviet army in the republic, the rights of Soviet citizens and the property of the Communist Party.

It has shown no sign, however, of offering the one concession which Mr Gorbachev has continually demanded - the dismantling of the independence declaration.

Mr Romualdas Ozolas, the deputy prime minister, said on Lithuanian television yesterday that oil and coal reserves would last for one month, electricity and gas for 20 days. In the event of a total blockade, the republic could hold out for a month if austerity measures

were introduced. Confirming the republican leadership's tactic of playing for time, Mr Ozolas said that within a month, changes might occur in the Soviet Union to put an end to the blockade. He said he hoped for aid from the neighbouring Baltic states, and that there were "no reasons for excessive concern."

It is certain that the Lithuanian response will do nothing to satisfy the demands from Moscow, and there appears no option but a trial of strength between the republic and the Soviet authorities.

The authorities are, however, clearly nervous that the West will intervene in the affair to the detriment of East-West relations and talks on disarmament.

Last night, the official news agency Tass sharply criticised Mr Robert Dole, leader of the Republican minority in the US Senate, for proposing that credits be offered to Lithuania and other Soviet states willing to supply it.

Tass said that "Senator Dole is not alone. It is impossible to overlook the fact that some people in the US are insistently trying to link the Lithuanian issue with the Soviet US summit due to be held at the end of May. The more noise is being made around the Lithuanian issue, the more officials and the press stress that no great hopes should be pinned on the forthcoming summit."

Analysis, Page 5



UK faces loss of North Sea oil order

By Steven Butler in London

ONE OF the biggest North Sea oil development projects of recent years could be forced to turn to the Continent for construction services because UK fabrication yards are running short on spare capacity.

Chevron, the US oil company, is now proceeding full speed with development of the Alba field, following approval last week by field partners of a phased development involving an initial expenditure of \$645m (\$1.1bn) for the first of two platforms. Alba, 150 miles north-east of Aberdeen, has about 1bn barrels of oil in place, and Chevron hopes to produce over 350m barrels.

Chevron is now authorised to develop detailed development plans and budgets. It expects to receive final government authorisation by December with first oil produced by the end of 1993. However, because of a surge in North

E Europe may find it harder to raise capital

By Stephen Fidler in London

THE capital-starved democracies of eastern and central Europe will find it harder than the communist governments they replaced to raise funds from international banks, according to a report published today.

The report, from the Institute of International Finance, a Washington-based think-tank which is sponsored by international banks, blames deteriorating creditworthiness, the uncertainty caused by political and economic change in the area's and existing high debt levels.

"The amount of funds raised in the (banking and bond) markets in the next few years will be less than has been the case in recent years," it says.

Rising costs of borrowing experienced by the countries over the last year "suggests credit limits to the quantity of funds which they can expect to raise."

Countries such as Bulgaria, Hungary and Poland have already reached high levels of indebtedness. "Quantitative measures of their creditworthiness, for example the ratio of debt to exports, the interest service ratio and the ratio of reserves to imports, are all flashing warning signals," it says.

Poland, with external debt of about \$40.4bn, "is the country in the region least able to service its foreign debt," the report says.

Bulgaria's debt has doubled to \$10bn within three years and is now three times as big

as the country's annual hard currency export earnings. Hungary's debt of \$19.7bn has been well managed but "recent borrowings are coming more readily from official sources than from private creditors."

Although banks' confidence will be improved if western governments provide tangible support, including contributions to the financing of economic reform and an opening up of their markets to east European goods, many banks will simply not lend to the region, the study concludes.

The study says countries will not have equal access to the bank credit available. Banks will, for example, be influenced by a country's debt servicing record. Countries will be able to improve their access to bank finance by allowing banks' lending options.

"Banks seek bankable business primarily in the form of trade, leasing and project financing, especially with significant cash flow and foreign exchange earning potential (tourism projects are a good example)," the report states.

The report adds that the combined hard currency debt of Poland, East Germany, Hungary, Yugoslavia, Bulgaria, Czechoslovakia and Romania, stood at \$116.8bn at the end of last year, down \$1.1bn on the year before.

Only in Czechoslovakia and Romania is debt not by itself a constraint on economic policy. East Europe's lifeline, Page 4

Eurotunnel raises estimate of funding for excess costs to £2bn

By David Lascelles, Banking Editor, in London

EUROTUNNEL has raised its estimates of the additional financing it will need to complete the Channel tunnel project following recent cost overruns.

The company now believes it will need at least £2bn (\$3.3bn) more. This compares with an estimate of £1.5bn which was made in January when Eurotunnel had a row with its contractors over soaring costs, and was forced to go back to its bankers.

The reasons for the increase include rising interest rates, continuing uncertainties over how disputed costs will be allocated, and Eurotunnel's wish to have a sufficient reserve to avoid a further money crisis.

The leading banks in Eurotunnel's 208-bank syndicate met last week to be briefed on the latest developments on the project.

Although they took no decisions, the banks are understood to be generally supportive of Eurotunnel's case.

However, they will have to approve an extension of a

waiver which allows Eurotunnel to continue drawing money because the overruns have put it technically in breach of its financing agreement.

The present waiver is due to expire at the end of next month, the date by which Eurotunnel was supposed to have its new financing package in place. But that deadline will not now be met, and the banks are preparing to extend the waiver into the summer.

The new cost estimate means that Eurotunnel's shareholders will be asked to contribute at least £500m rather than the £350m first indicated, since the banks are insisting that they provide a quarter of whatever new money is needed.

This also means that the total cost of the 30-mile tunnel will now be over £7.5bn compared with an original forecast of £5bn.

Eurotunnel hopes to have its new bank finance in place during the summer as a prelude to a rights issue, or equivalent, in

the autumn.

One reason why the banks have become more supportive is that co-operation between Eurotunnel and its contractors has improved since the January crisis and the changes that were made to management and cost allocations at the time.

The tunnel itself is also advancing well, with the boring machines making record progress in recent weeks.

There is growing expectation that the UK Government will shortly announce it is to subsidise the building of the Channel tunnel's high-speed UK rail link with a one-off grant of up to £2bn.

The Government is expected to circumvent the legislation which prohibits use of taxpayers' money in the tunnel programme by paying the subsidy in the form of a capital grant ostensibly to improve commuter rail services in Kent, which will share the line between Folkestone and Kings Cross with the international service.

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"My goal," says Steve Ross, co-chairman of US conglomerate Time Warner, "is to create the most successful media and entertainment company in the world." If success is measured solely by size, he would already be close to his goal. Page 44

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Brazil: Thin line between recession and the return of hyperinflation. Page 2

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OVERSEAS NEWS

Brazil keeps watch on Collor's progress

By John Barham in São Paulo

PRESIDENT Fernando Collor de Mello of Brazil is celebrating his first month in office with two crushing victories. He has suffocated hyperinflation by confiscating 75 per cent of the money supply and pushed through Congress the most audacious economic reforms Brazil has ever seen.

Mr Collor now faces the far greater challenge of successfully implementing his policies. Together with Ms Zelia Cardoso de Mello, Economy Minister, he must manage the economy with precision to avoid plunging Brazil into recession or reigniting hyperinflation.

Mr Collor says he intends to reinvigorate the economy by sweeping away the dead hand of bureaucratic interventionism and replacing it with the iron laws of market economics. He has eliminated subsidies, abolished countless government agencies and lowered trade barriers.

He promises to privatise \$18bn-worth of state companies, reduce government spending heavily and fire thousands of federal employees. However, his government lacks a stable political base. He was elected last December with 53 per cent of votes but his



Collor: still popular

National Reconstruction Party has no clear ideological flavour and holds only 31 seats out of 570 in Congress.

The President, who remains popular, has won his first victory in Congress by appealing directly to his electorate, outwitting veteran party leaders and winning over the same unreliable conservative majority that backed his predecessor.

Mr José Sarney.

Mr Collor has not traded votes for government jobs, loans, subsidies and business concessions. To the disgust of many congressmen, he had promised to abolish these forms of patronage that traditionally grease the wheels of Brazilian politics.

If economic policy falters or the inevitable recession proves deeper than expected, the Government's support will evaporate.

Many observers fear that the President could give in to the temptation to buy the support of powerful pressure groups by releasing their money early. The central bank is holding \$115bn in private assets for 18 months as part of the anti-inflation policy. And there are growing misgivings in the liberal press that the President is succumbing to the twin evils of Latin American politics - populism and the personality cult.

If the electorate and professional politicians sense that their sacrifices have been in vain, they will exact revenge at the October legislative and gubernatorial elections.

Hence, the crucial importance of faultless execution of the reforms. But policy imple-

ment and co-ordination has been spotty during the new government's first month. The rapid reorganisation of ministries and closure of agencies has paralysed the federal administration. Senior officials - particularly Ms Cardoso de Mello and her team of academicians - have little experience in government.

The President himself is inexperienced. He served as mayor, federal deputy and governor in a tiny state in the backward north-east region. Yet he has shown impressive

determination in imposing his will on Brasília's political establishment.

He has also shown a willingness to learn from his mistakes. He quickly withdrew emergency measures that were bitterly criticised for granting the Government authoritarian powers.

But after three abortive attacks on inflation, Brazilians have learned, with reason, to mistrust their presidents. Mr Collor must tread carefully to avoid betraying their trust again.

French hasten slowly on road safety

By George Graham in Paris

MORE than bells, bunnies and chocolate eggs, Easter in France means death on the roads.

The French know they drive badly. Their prime minister, Mr Michel Rocard, tells them so once or twice a year, while Mr Georges Sarre, minister for road safety, is regularly heard begging drivers to respect speed limits and not to drink.

Their advice is little heeded. Last year, 10,522 people died on the roads - twice as many as in the UK - and the death toll has dropped below 10,000 only once in 30 years.

Easter is murderous, as heavy traffic, festive alcohol and poor weather add to the number of road deaths - an average of 169 on each of the last five Easter weekends.

The Government has tried to curb dangerous driving: last year, it set a target of halving road deaths, announcing creation of a roadworthiness test for vehicles over five years old and introduction of a points system on driving licences as in the UK and West Germany.

But there remains a curious reluctance to take drastic steps. The roadworthiness test is being delayed and toned down for fear it may penalise the less wealthy, while action against speeding remains astonishingly mild.

When Mr Michel Charasse, Budget Minister, was caught doing 129 km/h on the Paris ring road, where the limit is 80km/h, his licence was withdrawn for a mere eight days, a punishment which Mr Sarre viewed as "instructive, exemplary and dissuasive".

Laxity has now been institutionalised - against Mr Sarre's advice, it appears - by creation of a two-tier speeding system. Drivers who go up to 20 km/h faster than the limit, or 30 km/h on motorways, will no longer risk losing their licences, though they will be asked to pay on-the-spot fines.

The measure may be realistic as less than 60 per cent of motoring fines get paid by normally law-abiding citizens. But it seems unlikely to do much to improve France's tragic record for road deaths.

NEWS IN BRIEF
Oil ministers to meet

THE OIL ministers of Saudi Arabia, Kuwait and the United Arab Emirates will meet tomorrow in Jeddah to discuss the world oil market, Renter reports from Nicosia quoting the Saudi press agency.

It said the meeting was part of consultations between members of the Organisation of Petroleum Exporting Countries to review the recent drop in world oil prices.

Oil ministers of Opec members Saudi Arabia, Kuwait and Iraq are also planning to meet in early May to discuss market and price developments.

The 13-member cartel is set to meet in Geneva on May 25 but the ministers, concerned at the sharp price falls, are holding private talks ahead of the meeting. International crude prices have slumped in the past week as the perception grew that world markets were awash with oil.

The Democratic Reform Party, formerly the Communists, gained 17 per cent and emerged from elections as the strongest single party in the 80-seat assembly. The ballot was the first multi-party election in Yugoslavia in more than half a century.

It will be followed by free elections in neighbouring Croatia on April 22.

Bulgarian opposition 'gaining'

Bulgaria's ruling Communists would currently win any free election but the main coalition of opposition parties is gaining electorate support, an opinion poll released yesterday suggested, AP reports from Sofia.

The survey of more than 3,100 voters, completed on Saturday and published by the Sofia Press Agency, showed 40.7 per cent of respondents supporting the Socialist (formerly Communist) Party, with 29.7 per cent favouring the opposition Union of Democratic Forces. The elections will take place on June 10.

The Sofia Press Agency said 5.6 per cent of the respondents were not likely to vote for any group. It did not account for the preferences of the missing 24 per cent.

The survey showed no erosion of support for the Socialists over the last month but a gain of 7 per cent over the same period by the Union of Democratic Forces, the press agency reported, without going into details.

MTU puts engine deal to Mitsubishi

Motoren-und Turbinen Union (MTU), part of the Daimler-Benz subsidiary Deutsche Aerospace, has asked Mitsubishi Heavy Industries to help it develop a new engine for passenger jetliners, Renter reports from Tokyo.

A Mitsubishi spokesman said the project would be carried out jointly with Pratt & Whitney of the US, if Pratt-MTU talks succeed.

MTU expects to develop a turbofan engine for a 75-seat passenger aircraft to be built by the Daimler subsidiary Messerschmitt-Bölkow-Blohm and China.

Smith seeks to convince US of Labour's virtues

By Lionel Barber in Washington

A FUTURE Labour government in Britain will be fiscally responsible, pro-European and more pragmatic than ideological, Mr John Smith, Shadow Chancellor of the Exchequer, said in New York yesterday.

In a speech aimed at convincing Americans that Labour is a realistic alternative to Mrs Thatcher's Conservative government, Mr Smith said Labour had undergone a dramatic transformation, modernising its economic and defence policies.

"The Labour Party has learned from its mistakes," he told the America-European Community in New York. "It is now probable that there will be a Labour government after the next General Election."

Today, Mr Smith takes his case to Washington where he will hold talks with senior Bush administration officials

including Mr Alan Greenspan, chairman of the Federal Reserve, and Mr Nicholas Brady, US Treasury Secretary.

In his speech, Mr Smith avoided naming the old Labour goals of unilateral nuclear disarmament or nationalisation of the commanding heights of the British economy. Instead, he cast Mrs Thatcher as a relic of the past who had committed a fatal blunder with the introduction of the poll tax.

Mr Smith played on the Bush administration's unease about Mrs Thatcher's ambivalence towards closer European political and economic integration. Labour, he said, has a programme which is "significantly European in outlook" and it is eager to negotiate the pound's entry into the European monetary system.

"The commitment to negotiate entry is an important aspect of our economic policy,"



Smith: pledges

said Mr Smith. On Labour's economic policy, Mr Smith said the party had broken with the traditional Keynesian approach of short-term demand management. "There will be no dash for growth under the next Labour government," he pledged.

Army proposes steeper cut in forces by 1997

By Lionel Barber

THE US ARMY has drawn up plans which would eliminate one in four uniformed soldiers by 1997, cutting active duty personnel from 764,000 to 580,000.

In addition, the US Air Force may reduce its front-line jet fighters by more than 25 per cent over the same period.

The measures, still to be approved by President George Bush and Mr Richard Cheney, Defence Secretary, are twice as large as the cuts envisaged under the US military's current five-year plan to 1995.

By cutting troop numbers, the Army hopes to preserve funding for high-tech weapons, as well as for training and operations which it sees as essential to preserve morale and attract recruits.

The problem is that Congress may call for even deeper cuts in pursuit of the "peace dividend" which both Demo-

crats and Republicans say should result from the diminished Soviet military threat.

Democratic leaders argue that Mr Cheney's present 2 per cent fall in defence spending over the next two years does not take account of disintegration of the Warsaw Pact in Europe. Some are pushing for a 3.5 per cent cut a year.

The Army's proposed cuts come as weapons programmes, notably the B-2 Stealth bomber, are under severe Congressional pressure. The administration may have to concede that its planned production of 132 Stealth bombers is unrealistic.

The New York Times reported yesterday that Mr Cheney has dropped his opposition to US-Soviet negotiations on mobile multi-warhead missiles as part of a follow-up round to the current Strategic Arms Reduction Talks.

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OVERSEAS NEWS

S Korea
tries to curb
rise in
land prices

By John Riddling in Seoul

SOUTH KOREA has announced measures aimed at curbing real estate speculation and the sharp increase in land prices.

The rise in land prices and rental charges - which have increased by up to 50 per cent over the last year - is the most pressing social issue facing the Government. Homelessness has increased sharply and inflation threatens to reach double figures this year.

Under the new measures, failure to register real estate transactions will be punishable by heavy fines and imprisonment.

In addition, the Government will set up 20 special task forces to crack down on speculation and to investigate illegal issuances of land transaction permits.

But analysts greeted the measures with scepticism and argued that they would do little to resolve the problem. Private real estate experts said the measures were impractical and doubted whether they could be properly enforced.

The stock market, which has suffered from the flow of funds into real estate speculation, fell further on the announcement of the new measures, breaking the psychological 500 point barrier to stand more than 10 per cent below the level at the beginning of the year.

The Government is under strong political pressure to resolve the problem of escalating house and rental prices.

In 1989, the national price of land increased by an average of 32 per cent, according to the Economic Planning Board, and rental prices in some areas of Seoul have risen by 50 per cent over the same period.

As a result, most Koreans are now unable to afford their own homes and there have been suicides prompted by the threat of homelessness.

The Government has said that it will build 2m new homes by 1992 and that it will spend 5.2 trillion won (\$4.5bn) in the current year on housing construction. It will also relax restrictions on new buildings in an attempt to improve the supply of housing.

Southern overture

South Korea will renew its proposals for direct communications, travel and trade with Communist North Korea when dialogue resumes, possibly in May, according to news reports quoted by AP-DJ in Seoul.

Chosun Ilbo, the largest daily newspaper, said in a front-page story that South Korea planned to suggest opening road, railway and sea connections with the North and would propose creating a post office and telephone centre to handle inter-Korea contacts.

Trade round failure
'could lead to chaos'

By Alan Pike

FAILURE OF the General Agreement on Tariffs and Trade's Uruguay Round could leave "chaos and impoverishment as its legacy," a group of prominent political and business leaders warned yesterday.

At its inaugural meeting the Eminent Persons Group on World Trade, set up to exert world-wide pressure for free trade, called for political resolve to help the Uruguay Round talks to succeed by their December deadline.

The group consists of current and former politicians and business leaders from around the world. Members decided at yesterday's meeting, in London, to send a message to trade ministers who are meeting in Mexico this week calling on them to exercise leadership on world trade.

It will be making similar appeals for the success of the Uruguay Round negotiations to ministers meeting at the OECD next month, leaders of developing countries gathering in Kuala Lumpur in June and July's economic summit in Houston.

Mr Otto Lambsdorff, former West German Economics Minister and chairman of the Eminent Persons Group, said after yesterday's meeting that he recognised that other world events, notably developments in Eastern Europe, were distracting attention from the trade issue.

Inquiry into Iraqi 'big gun' aims at three broad targets

FROM INTERCONTINENTAL "doom gun" to monumental red herring: the versions of Britain's inquiry into Iraq's story range from the sinister to the ridiculous. Five days after the climax of Operation Bithra - the impounding of a shipment of heavy castings at Teesport, northeast England - government officials were yesterday still awaiting an outcome from the investigation.

Three broad hypotheses have been put forward for the tubes' purpose: ● They are a 40-metre gun. This is British Customs and Excise's version. It corresponds to the combined length of the eight sections of one-metre bore tubing found at Teesport and, say Customs, matches designs published by Dr Gerald Bull, the Canadian gun scientist shot dead last month in Brussels, apparently by a professional killer.

A revised version of this theory is that the gun would launch satellites rather than weapons. But Customs

says the gun, inspired by Dr Bull's US-backed work in the 1950s, would be equally able to put a booster-assisted shell or rocket into low orbit.

Dr Bull's Brussels company, Space Research Corporation, acted as intermediary both for this \$1.3m shipment from Sheffield Forgemasters and for a separate order from Walter Somers of Halesowen near Birmingham, according to Customs.

Some reports suggested that the 44 castings already sent to Iraq by Sheffield Forgemasters might have formed two prototype barrels. The company accepted yesterday that the eight sections at Teesport used different thicknesses of metal, with a constant internal bore, which would be consistent with the gun theory. But it insisted that they did not fit together. Asked about this assertion, a Customs spokesman said: "Nobody has unpacked them yet."

The manufacturer says the pipes

The British Government is still awaiting the outcome of an investigation into the large metal castings impounded in Teesport last week. David White, Defence Correspondent, looks at the options.

were meant to make up two 26-section lengths, each of 166 metres, for the petrochemical industry. This has given rise to a second alternative: ● They are part of a 156-metre gun. Customs dismisses this one. Although some ballistics experts think such a long-range weapon would be possible, few are prepared to believe that Iraq could even contemplate the technological leap required to make

a gun of that size work.

The 40-metre gun would already be a considerable technological challenge. Experts say the breech-block alone would be a major engineering feat. Dr Bull's experimental space guns were 16-inch calibre, the biggest size of gun in service today (on Second World War-era US battleships) and less than half that of Sheffield Forgemasters' tubes.

The Customs spokesman rejected a report suggesting Iraq was planning to use the detonator capacitors which were seized last month at Heathrow as a means for setting off supplementary charges in the barrel of a big gun.

For either gun theory, the investigation will turn on the projectile. On whose assistance was Iraq counting? British officials indicated that attention was focusing on Belgium, which has two companies producing large-calibre ammunition: Mecar, a subsidiary of Allied Research Associates of

the US; and PRB, bought last year by Astra of the UK.

PRB was previously involved in a joint artillery venture with Dr Bull. Mr Roy Barber, non-executive chairman of Astra, said yesterday: "Our understanding is that PRB's connections with Dr Bull were some years ago, and that the connections were quite proper."

Mr Christopher Gumbley, former managing director of Astra, who is facing corruption charges, has denied reports that he met Dr Bull shortly before the latter's death.

European countries' rules governing exports to Iraq vary considerably. The UK's criterion, established during the Gulf war, is to prevent sales that would enhance either Iraq's or Iran's military capability. Wider restrictions are built into the Department of Trade and Industry's Security Export Control guidelines. These list items requiring export licences, whatever the destination.

Item M12 covers "large-calibre armament . . . and specially designed components."

Any prosecution with respect to the Iraqi shipment would require evidence that the supplier knew what it was making. This leads us to the last theory - the supplier's: ● They are industrial pipes. Assuming that Iraq's petrochemical plants are less of a state secret than its weapons, it should be possible to demonstrate where these pipes fit.

British Customs are working on a theory that the earlier shipments may indeed have been genuine pipelines and that these supplies, cleared by the DTI, were used as attempted cover for a single, last consignment of gun-barrel sections.

All along, many military experts have thought the "super-gun" story far-fetched. But if the pipes are just pipes, why would Iraq order them through a company whose reputation rests on weapons expertise?

Eleven more
die in Natal
violence

A SOLDIER and a policeman were among 11 people killed as violence over political supremacy continued in Natal province, police said yesterday. Reuter reports from Johannesburg.

Their deaths in political clashes over the past 24 hours brought to 41 the number killed over Easter.

Police constable Berna McDade, a British immigrant, was found dead beside a road late on Saturday night with a bullet wound in his neck, a police report said.

The soldier was shot in the leg when his patrol was ambushed at the black township of Mphumalanga, one of the worst trouble spots in the recent upsurge in fighting in the province. The other nine deaths were in townships around Port Shepstone.

Troops have been called in to help quell the violence in Natal between rival black groups which has claimed more than 500 lives since the beginning of the year.

The troops, including a division of Portuguese-speaking recruits from Angola who have enlisted in the South African army, have mounted a crackdown in Natal in a bid to confiscate unlicensed and homemade guns, the police spokesman added.

They said the violence around Port Shepstone, far from the main scenes of violence, appeared to be a fight over land possession. An internal leader of the African National Congress, Mr Walter Sisulu, criticised the Government's decision to deploy the Angolan soldiers.

He said that the battalion was "a unit consisting mainly of notorious Angolan civil war soldiers and mercenaries from other European countries." But an army spokesman said the decision was an attempt to show strict impartiality.

Dole upsets Israelis by reversing stand on status of Jerusalem

By Hugh Carnegie in Jerusalem

ISRAELI officials yesterday reacted sharply to an announcement during a visit by Senator Robert Dole that he wanted the US Senate to rescind a recent resolution - which he co-sponsored - recognising Jerusalem as Israel's capital.

His reversal deepened differences between Israel and Washington on the status of the city.

The non-binding Senate resolution was passed - much to Israel's satisfaction - after President George Bush and Mr James Baker, US Secretary of State, had resisted longstanding US policy which does not recognise Israel's annexation of Arab parts of Jerusalem in 1967.

The issue of Jerusalem's status was revived over the Easter weekend after a group

of Jewish settlers moved into the Christian quarter of Jerusalem's Old City.

Mr Teddy Kollek, Mayor of Jerusalem, sent a telegram to Mr Dole spelling out his opposition to repeal of the Senate resolution.

Mr Yosi Ahimeir, a senior aide to Mr Yitzhak Shamir, the Prime Minister, said: "Whatever the declarations of Mr Dole or the US, they will not

change the fact in this country and the Middle East that Jerusalem is under our control, our sovereignty and will remain as it is, the capital of Israel and a united city."

Mr Dole, Senate Republican leader, said talks in Syria, Iraq, Jordan and Egypt had convinced him that the Senate resolution was an obstacle to Middle East peace talks. He now believed the status of Jerusa-

lem should be subject to negotiation.

The Senator also irked his Israeli hosts by reiterating that US aid to Israel should be cut and observing that US public support for Israel was undermined by violence in the occupied territories, where Israeli troops are fighting a 28-month-old Palestinian uprising.

His willingness to voice openly what many Israelis

believe is the private thinking of the Bush administration gives his statements extra weight. There was discomfort at his reiteration that the \$3bn Israel receives in military and economic grants a year should be cut - along with aid to other favoured countries such as Egypt and Pakistan - to make more funds available for emerging democracies in Eastern Europe.

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OVERSEAS NEWS

INSTITUTE OF INTERNATIONAL FINANCE IDENTIFIES CONSTRAINTS ON INVESTMENT

Western companies hold lifeline for Eastern Europe

By Stephen Fidler, Euromarkets Correspondent

WESTERN companies – rather than banks – are the most promising source of private foreign capital for the countries of eastern and central Europe, according to a study published today by the Institute of International Finance, an influential group which speaks for international banks.

The Institute, the Washington-based organisation established in 1983 by banks to study the risks of lending to developing countries, says foreign companies can be an important source of technological know-how and managerial expertise as well as capital. However, there are severe constraints at present, including the legal systems of eastern Europe and likely shortages of raw materials. Trade barriers and restrictions on certain exports imposed by western countries are also likely to impede such investments.

The access of these countries to international bond markets and to new funds from banks will be reduced by concerns about the countries' deteriorating creditworthiness.

Western governments could help to increase confidence by providing tangible support for the countries. However, while some commercial banks – particularly those following their customers – will make loans to eastern Europe, many will not.

"It is wrong to assume the concerted approach to sovereign lending which has charac-

terised lending to Latin America since 1982 will be transplanted to central and eastern Europe," the report says. Banks' attitudes will be influenced by a country's debt servicing record and its current level of debt, the prospects for a stable government which can sustain economic reform, the country's resource base and its economic and cultural ties with the west.

These considerations

tor borrowings. It says Poland is the country that is least able to service fully its foreign debt and notes that two-thirds of it is owed to official bilateral creditors, with which it has run up substantial interest arrears. But it makes no suggestions about what should be done about this. Poland has hard currency debt of \$40.4bn at the end of 1989, equivalent to 470 per cent of exports.

The study also notes a sharp

is growing interest in the idea. Central and eastern Europe's current importance in international economic terms is modest. Just how modest is difficult to judge. The measurement of economic performance of these countries is notoriously unreliable. Because only some states – Poland, Romania and Yugoslavia – are members of the International Monetary Fund and World Bank, these organi-

\$425bn, less than 10 per cent of the output of the European Community. The region's 198m people – 4.5 per cent of the world's population – thus accounted for only 2 per cent of world output. A year earlier, the region accounted for combined trade of \$240bn, equivalent to roughly 4 per cent of the \$5,900bn in world exports and imports. This may be an over-estimate given that only 40 per cent of the trade takes place in convertible currencies.

Thus in hard currency terms, the region's combined exports were only three-quarters of Hong Kong's, about four-fifths of South Korea's and Taiwan's, and about the same of those of China. Despite this the countries have a significant external debt. Debt in convertible currency totalled \$116.6bn at the end of last year – one-quarter of Latin America's and one-third of Asia's.

A smaller proportion of this is owed to banks than in Latin America. Debt to banks equalled \$56.1bn – 48 per cent of the total, compared with 82 per cent in Latin America – of which \$43.7bn was medium- and long-term debt.

Living standards are difficult to assess. Estimates based on purchasing power parities, which attempt to value output at western prices, range from \$5,500 per head for the poorest countries (Romania and Yugoslavia) to \$12,500 for the richest (Czechoslovakia and East Germany). This would put them among high-income countries as defined by the World Bank.

But estimates which use official exchange rates suggest lower income levels of between \$1,900 and \$5,200 a year, defining them as upper middle-income countries.

Methods based on black market exchange rates lower the range to \$400 to \$300. Use of other indicators – for example the numbers of cars, telephones and televisions in use and social indicators such as daily calorie supply and infant mortality – suggests standards of living well below countries such as Ireland or Spain.

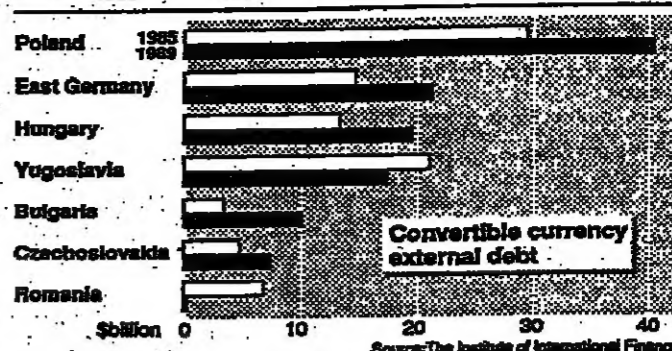
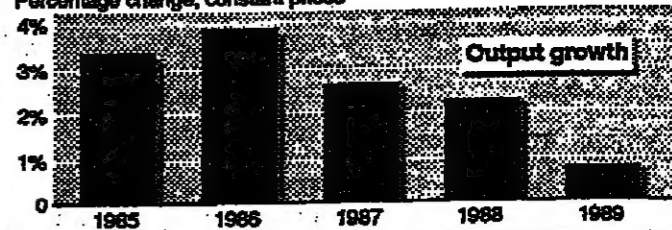
The report concludes that people in the richest of the countries have living standards in line with a country such as Greece, and significantly higher than Latin American countries such as Argentina, Brazil and Mexico. In 1989, growth in the region flattened to 0.8 per cent, compared with 2.2 per cent in 1988. The economies of Bulgaria, where output shrank 0.4 per cent, and Poland, where it fell 3.0 per cent, contracted last year. Speediest growth of 2.0 per cent was in both East Germany and Czechoslovakia.

A big combined current account surplus for the group in 1988 turned into a small deficit last year. But this hid a great diversity of performance between the countries: Bulgaria and Poland each posted \$2bn current account deficits in 1989, while Yugoslavia was in surplus by the same amount and Romania by \$3.26bn.

As for economic reform, each

Central and Eastern Europe

Percentage change, constant prices



Source: The Institute of International Finance

country faces significantly different problems in making the transition from a command economy to one that is market-based, the study says. "The quality and quantity of the capital stock varies. Some have serious macroeconomic stabilisation problems; others are under better control. Not all the countries suffer from what can be categorised as a debt problem. The experience with economic reform and the existence of a supporting institutional framework also varies."

The study identifies five types of reform as crucial to establish the essential features of a market economy.

● **Price reform** – of labour and product markets. "Prices of goods will have to reflect the true costs of production as well as relative scarcity." The housing and agricultural sectors require particular attention.

● **Policies to promote the private sector** – with up to 85 per cent of total production controlled by the state, the most important measure would be the break-up of state monopolies. As soon as possible, state-run entities should be reduced in size, perhaps by breaking them up into smaller units, and the need emphasised to maintain financial discipline. Privatisation is one approach. Private enterprises should at least be granted equal access to labour markets, raw materials and capital as the state sector.

● **Policies to promote sound financial markets** – interest rates should exceed inflation to encourage domestic saving and interest rates need to be determined freely in competitive markets to ensure that scarce capital is allocated most productively. A commercial banking system separate from the central bank should be created. Allowing the entry of foreign banks would stimulate competition.

● **Liberalisation of foreign**

trade and investment: this includes measures such as dismantling the state monopoly on foreign trade, removing quotas on trade and establishing uniform tariffs. The Council of Mutual Economic Assistance (CMEA) accounts for 60 per cent of these countries' trade and constitutes a special problem. Unless prices are realigned within the CMEA, "entrepreneurs face conflicting price signals with endless possibilities for arbitrage". Slow progress on trade issues will seriously dilute the beneficial effects of other measures.

● **Exchange rate reform** culminating in full currency convertibility: the CMEA will mean that full currency convertibility is unlikely immediately, but the ultimate objective must be for the countries to become fully integrated into the multilateral world payments system.

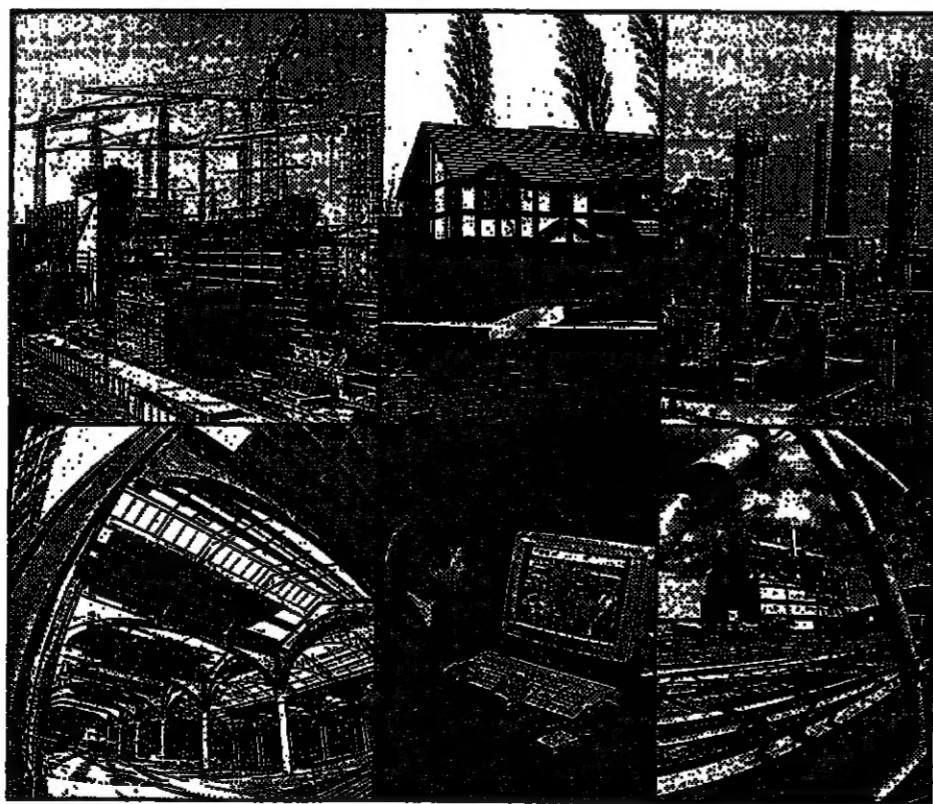
The second set of necessary reforms, affecting attitudes and institutions, include the creation and protection of property rights; a decentralisation of decision-making away from the "nomenklatura"; the development of preconditions for well-functioning capital markets, such as accounting and uniform standards of reporting for companies; and the supervision of financial institutions and investor protection laws.

The study says that the progress made towards these ends differs from country to country. In East Germany, a special case because of impending economic and monetary union with West Germany, progress will have been significant by the end of this year. Hungary, Poland and Yugoslavia have also begun some reforms, while the relatively high standard of living in Czechoslovakia may be evidence that the economy is not so grossly distorted. The countries farthest away from reform thus appear to be Bulgaria and Romania.

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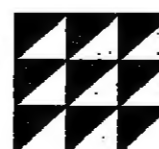
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TURNOVER	1992.6	1309.9
PROFIT BEFORE TAX	91.3	61.6
PROFIT AFTER TAX	61.2	40.1
EARNINGS PER ORDINARY SHARE-UNDILUTED	71.4p	54.2p
EARNINGS PER ORDINARY SHARE-DILUTED	52.2p	47.8p
DIVIDENDS PER ORDINARY SHARE	19.0p	17.0p



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Soviet economic debate remains at stalemate

By John Lloyd in Moscow

THE much-publicised debate in the Soviet Union about the transition from a centralised structure to market principles remains bogged down within the Soviet ruling elite after a joint meeting at the weekend of the Presidential Council and the Council of the Federation failed to agree on a package of reforms.

In a curt report Tass, the official news agency, said that further discussions would be held this week after a "wide variety of opinions" had been expressed. It seems likely that the joint council will reconvene tomorrow.

The main report to the meeting was presented by Mr Yuri Maslyukov, chairman of the state planning agency Gosplan – whose views on the economy have tended to the conservative. In addition, the language used by Tass – that participants agreed to "introduce new methods of economic guidance and new forms of management" – eschews the

free market terminology which the more radical officials, like Dr Leonid Abalkin, the deputy Prime Minister in charge of economic reform, tend to employ.

An indication of the strains within the establishment over economic reform was given yesterday during a debate in the Supreme Soviet on two bills on taxation reform.

The first, sponsored by the Government, envisages a minimum tax rate on enterprises of 55 per cent, while the other, introduced by Mr Victor Yaroshenko, a Moscow economist, specifies 35 per cent.

Mr Valentyn Pavlov, the Finance Minister, said that the government bill already cut central budget revenues by 10 per cent in 1991. He said further reductions would block the implementation of large-scale social programmes. Mr Yaroshenko, however, said that the Government's draft did not accord with its aim of introducing market principles.

Bucharest groups clash

RIVAL groups kicked and punched each other during demonstrations for and against Romania's ruling National Salvation Front in Bucharest yesterday, Reuters reports from Bucharest.

Trouble began when supporters of the Front, which set up a provisional government after Nicolae Ceausescu was ousted in December, started a march at Union Square, usually a venue for anti-Front gatherings. Opposition groups had called off their usual protests there during Easter.

The Front marchers, numbering fewer than 100, shouted support for interim President Ion Iliescu and denounced the country's exiled ex-King Michael, barred by the Government from making a private Easter visit last week. Hundreds of people, out for a holiday stroll, reacted angrily.

Scuffles broke out when the anti-Front crowd blocked streets ahead of the marchers, forcing them to change their route. The two groups were eventually separated by armed police.

WORLD ECONOMIC INDICATORS

INDUSTRIAL PRODUCTION (1985 = 100)

	Feb '90	Jan '90	Dec '89	Feb '89	% change over previous year
US	114.5	114.0	115.1	113.5	+1.0
Japan	120.5	120.9	120.5	118.6	+2.0
W.Germany	115.4	116.3	118.9	110.5	+4.3
France	112.7	111.5	113.2	110.3	+1.2
UK	110.1	110.9	112.0	109.8	+1.6
Italy	117.0	121.4	119.3	115.3	+2.5

Source: (except US) Eurostat

OVERSEAS NEWS

Soviet leaders search for a way out of the Lithuanian maze

AMONG THE strongest cases for Lithuania's independence came at the end of last week from the unlikely quarter of Gosplan, the state economic planning agency.

Its deputy chairman, Mr Alexander Troshin, published an article in the *Rabochaya Tribuna* which made it so clear that the Soviet Union would benefit from seeing the back of the troublesome little republic that the reader wondered if — for all its warnings of Lithuanian adventurism — it was meant to prepare the Soviet audience for a severing of links.

Lithuania, he said, had cost the Soviet state Rb50bn since its incorporation in 1940, when it lagged behind the average Soviet economic standard by at least three years and only 7 per cent of its economy was industrialised.

In the past 25 years, Rb50bn more had been spent on it than it had produced for the Soviet Union; and it enjoyed 2.3 times more investment per hectare on its agro-industrial complex than the Russian Federation — the real reason for its higher agricultural productivity.

It was, said Mr Troshin, not just utterly dependent on the Union for oil and gas: these were supplied at way below world prices, while Lithuania's exports to the Union — meat, milk and consumer goods, particularly TV sets — were dearer and of a lower quality than those available on the world market. If the republic

Estonia may serve as a model for defusing the crisis in its neighbouring republic, writes John Lloyd in Moscow

hoped to achieve independence and continue the present terms of trade, it was "unrealistic and naïve".

"What would be the point," he continued, "of the Union trading with an independent state at unprofitable conditions for itself — selling a tonne of oil for Rb30 when it commands \$110-\$120 on the world market? Or a tonne of diesel at Rb68 when it costs \$130 in world prices?"

Over the weekend, it looked as though the Soviet government was taking note of these good, if rhetorical, questions. In choosing to deny Lithuania precisely those commodities which can be freely traded — oil and gas — it has done a very ambiguous thing, as politicians in Lithuania have realised. It has decided to turn a screw to exact discipline.

But it has also paid the backhanded compliment of underpinning its independence, even if in a painful way. As Mr Vytautas Landsbergis, the Lithuanian President, remarked: "If Moscow is to demand hard currency for these products (oil and gas), that will mean that Moscow considers us a foreign state."

However, there is another

line in the Soviet leadership's increasingly diverse reaction to challenges, one most evident in warnings it delivers to the West to steer clear of intervention in a problem it insists is internal. It sees — as Pravda made clear on Sunday — the hand of anti-Sovietism in calls for support of Lithuania; the desire to encourage separatism as a means of undermining Soviet superpower status.

Do not, said the paper, throw away the gains of new international thinking "under the feet of Lithuanian nationalists".

According to this line of thought, such calls as those by Senator Robert Dole for US credits for Lithuania and for other Soviet states which might wish to continue supplying it are a reversion to the Cold War, calling for an appropriate response.

The tension now surrounding the Lithuanian question is thus not merely between that republic and the Soviet authorities, but within the Soviet leadership itself.

It is now Janus-headed: It assures Mr Douglas Hurd, UK Foreign Secretary that — as he put it last Wednesday — "a decision had been taken not to interrupt the flow of necessary materials to Lithuania". And on Friday night it decides to interrupt supplies. It rules out talks, then allows Lithuanian envoys last week to meet Mr Alexander Yakovlev, a senior and the most liberal member of the Soviet Party politburo.

This is hardly surprising, for it is playing to at least two audiences.

The first is the military, which is unambiguously hostile to loss of the strategically vital Baltics. The second is a mix of democratic movements, which see the Baltic states' desire for independence as a natural result of perestroika and glasnost, and patriotic Russian sentiments, with many simply wanting rid of ungrateful expensive parts of the empire.

There remains a possible exit from the crisis: capitulation in some form, once the sheer scale of the economic blockade becomes evident to Lithuania. But it is difficult to see how this could become a possibility.

All three Baltic republics were forcibly incorporated in the Soviet Union in 1940, as the USSR Supreme Soviet has had the courtesy to admit. The massacre of their intelligentsia and bourgeoisie after the war is now being exposed: reassertion of their nationhood has been elevated to an almost sacred crusade.

In some respects, Lithuania — with 80 per cent of its population ethnically Lithuanian — is in a better position than Estonia (60 per cent) and Latvia (63 per cent): it is less desperate to preserve a separate culture.

Yet there may be another way, which may be called the Estonian option. On the face of it, that state has done much the same as Lithuania. It proclaimed independence on March 30 when its newly elected Supreme Soviet reasserted the validity of the pre-



Long lines formed at petrol stations in Lithuania after expiry of Gorbachev's ultimatum threatening an economic blockade

1940 constitution. It has rebuffed Mr Gorbachev's demand that it rescind this declaration last week, as did Lithuania. And it has, like Lithuania, appealed to its young men not to join the Soviet army in the spring draft, encouraging them to sign up locally for alternative community service.

Last Friday, Mr Arnold Ruutel, Estonian Supreme Soviet chairman, flew to Moscow for talks at the weekend with Mr Gorbachev and other Soviet leaders as they gathered in the Presidential Council to consider economic

reforms. Before he set off, he told me he would seek to impress on the Soviet leader the fears that Estonians had of being "swamped by Russian immigrants": that the declaration of independence was not negotiable; and that talks must start soon on the how of independence, not on the whether.

As he spoke, the new government of Mr Edgar Savisaar, the Prime Minister, was measuring out its offices. The Economic Minister, Mr Jaak Leimann, said firmly he would emulate Poland in a rapid transition to a market economy. The chair-

man of the Estonian Bank, Mr Rein Ostason, announced he had placed a contract for printing of Estonian currency, the kroon, to be delivered by Christmas.

A few days before — on April 7 — the Estonian leadership had a visit from General Konstantin Kochetov, Soviet deputy defence minister; according to Mr Ulo Nugis, speaker of the Estonian Soviet, "he behaved completely like a soldier or as an officer in an occupation army might behave. On several occasions he interrupted Arnold Ruutel's explanations, attempted to

break in with assessments — along the lines of 'I will show you your place.' Here was one side of unreconstructed Soviet power, a simple assertion of an assumed right.

Yet Mr Ruutel spent this weekend in what were, by his account yesterday, amicable enough talks with the Soviet leadership. Mr Gorbachev had, he said, agreed to consultations which might in turn lead to negotiations — which would not, he said, include Lithuania.

Much of this quite different treatment has, it seems, to do with style. Estonia, while declaring independence, has also talked of a "gradual transition" to it. Mr Ruutel is a Communist, and has held high posts in the Estonian Soviet for nearly a decade. He is only partly trusted by some colleagues, and rather less by the radicals of the Estonian Congress, the parallel body elected before the Soviet, which functions as a constant goad on it. Yet they would tacitly recognise the value of this handsome, bluff-seeming man who says of himself: "I have the support of the Estonian farmer and he is not one for adventure."

By pushing him towards Moscow, while the Congress keeps militancy high at home and signals to the world that independence is declared, they hope to have matched the kind of multi-layered, contradictory policies which Mr Gorbachev himself likes to play. To that extent, they are a better "fit" with Moscow than the more intransigent Lithuanians.

Chinese openly discuss 'life after Deng'

By Peter Ellingsen in Peking

THE MOST privately asked, and publicly avoided, question in China — what will happen after "Emperor" Deng Xiaoping dies — has surfaced surprisingly in, of all places, the *Peoples' Daily*, the Communist party's mouthpiece.

The raising of such a crucial, and normally taboo subject on the first anniversary on Sunday of the death of the liberal former party chief, Hu Yaobang, suggests that hardliners within the party have the upper hand, and are preparing for Deng's passing.

Deng (85), paramount leader and the man most responsible for rallying the army behind

the party last year when massive democracy demonstrations occurred, is frail but apparently still in control. He is regularly rumoured to be ill and in recent public appearances has shored his words.

He is still, however, able to exert influence when it matters and hold party factions together on divisive issues. The "after Deng what?" line has come from the only figure with anything like Deng's stature, Chen Yun, the regime's high priest of Marxist-style central planning and a long-time critic of Deng's economic reforms.

Chen, who is 85 and almost

incapacitated, has not been seen since last October, but the party has given prominence to a speech he made in 1987 in which he said that Deng, "number one leader", will not be around "in a few years".

Chen, for decades an ideological adversary of Deng, is quoted as having told party leaders they soon have to carry the responsibility of ultimate office. In an indication that the more moderate line favoured by Deng during the 80s is now dead, he called on senior leaders to devote themselves to an intensive study of Marxism. The article is especially revealing as Chen is a key

patron of China's hard-line Prime Minister, Li Peng, and his name is synonymous with central planning and strict ideology. It was Chen who opposed Deng's economic reforms in the mid-80s, and it was to Chen that Deng had to appeal when his chosen successor, the disgraced party chief, Zhao Ziyang, refused to crush student-led democracy protests last May.

Taken with similar recent articles from hard liners the release of Chen's speech suggests moderate thinking has all but been extinguished.

The ghosts of Tiananmen Square, Page 18

Japan's Olympic Committee head resigns

By Ian Rodger in Tokyo

MR YOSHIHIKI TSUTSUMI, reckoned by *Forbes* magazine to be the world's richest man (excluding royalty) with net worth of at least \$15bn, resigned as chairman of Japan's Olympic committee following charges that a series of embarrassments suffered during the Asian Winter Games in Sapporo last month had a bearing on his decision.

The 55-year-old Mr Tsutsumi, who presides over the vast Seibu empire of railways, department stores and leisure businesses in Japan, assumed the post only last August as the campaign to win the 1998 Winter Olympics for a site in Nagano prefecture 100 miles

north west of Tokyo began to warm up.

Mr Tsutsumi (whose half brother, Seiji, runs Seibu Saito, another large leisure group), said at a press conference to announce his resignation that a series of embarrassments suffered during the Asian Winter Games in Sapporo last month had a bearing on his decision.

The organisers met severe criticism from the opening day of the games when the public address system played the Mongolian and then the North Korean national anthems for a South Korean speed skater at a victory ceremony.

Four days later, officials mistakenly signalled to a Japanese skater in the 10,000-metre speed-skating event that he had one lap to go when actually he had two.

It was widely suggested that Mr Tsutsumi, who was acting only on a part time basis, was neither providing enough leadership to the organisation nor delegating enough authority to others. "I'm afraid I have put you to much trouble," he said.

He suggested that the campaign for Nagano to hold the 1998 Winter Olympics would be badly damaged if similar mistakes were made in September when the International Olym-

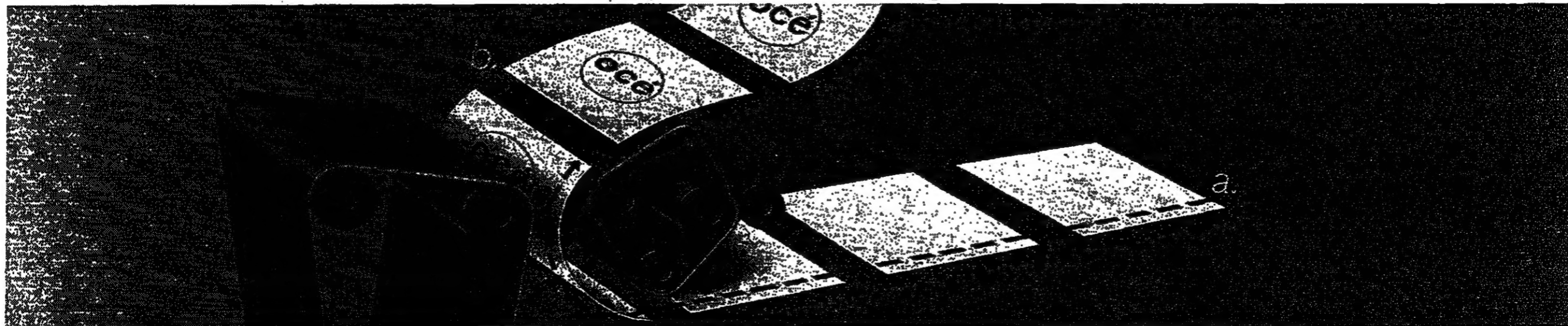
pic Committee convenes its 96th session in Tokyo.

"A part time president, as long as he has other jobs, can serve better by quitting his post," he said.

Mr Tsutsumi's decision to resign also follows criticism of plans to hold many of the ski events for the 1998 Olympics on or near the Seibu-owned ski resort at Shiga Kogen in Nagano.

Last week he decided to abandon plans to develop a new ski slope for the downhill olympics at Seibu's Shiga Kogen resort because of strong protests by environmentalists.

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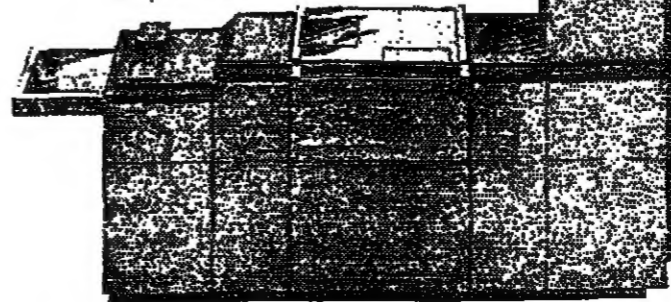
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UK NEWS

Radio authority will look for more specialisation

By Raymond Snoddy

THE WAY has been cleared for the creation of a national commercial radio station dedicated to classical music to compete with the BBC's Radio 3 by Mrs Margaret Thatcher, the Prime Minister.

She has decided that each of the three licences to be put out to competitive tender should be devoted to a different theme.

Her decision is in response to a warning from Lord Chalfont, chairman of the Radio Authority, that all three new national commercial radio stations provided for in the Broadcasting Bill, currently before Parliament, might turn out to be near-identical pop stations.

Previous government policy has suggested that each station should carry a wide variety of programmes, in contrast to the position in the US, where commercial stations concentrate on a particular type of music.

Mr David Mallor, the Home

Office minister responsible for broadcasting, has asked for an amendment to be drawn up for the bill's report stage providing for different types of programming.

The amendment will require the Radio Authority to seek diversity between the three stations and may add that this should include a largely speech-based station and two for different styles of music.

That would give the authority the discretion to seek commercial operators for a news and speech station, a popular-music station and a classical-music station.

New York has two competing commercial classical-music stations as well as a public broadcasting station, one of which, WQXR, has revenues of about \$8m (\$4.9m) a year and pre-tax profits of over \$1m.

Lord Chalfont hopes to advertise for tenders for two of the three stations this autumn.

Tea and some sympathy for the Mormons

Kieran Cooke looks at the close-knit life-style of a 'hard green' area of north Belfast

THE two Mormon missionaries were going from door to door, their smart dark suits and clean-cut American looks strangely out of place in the working-class streets of Belfast.

"I'll always be a Catholic," said the woman at one doorstep. She offers the missionaries tea. "At least you've come to see us."

New Lodge in north Belfast is designated on British army maps as a "hard green" area - a square-mile nationalist stronghold in which the IRA is known to operate. Few strangers venture on to its streets.

New Lodge is not representative of the whole of Northern Ireland - far from it. But its problems are Northern Ireland's problems writ large: social, political and economic.

Only 5,700 people live in the area. It is almost exclusively Roman Catholic, surrounded by Protestant zones and security installations. Almost every approach to New Lodge is surveyed by police cameras or heavily fortified army posts.

The top floor of the "Artillery Flats" in the centre of the

district has been commandeered as an army lookout post, complete with the most modern surveillance equipment. Beleguered and cut off as New Lodge appears, it has long waiting lists for housing.

Mr Seamus McAloran is a local social worker, born and reared in New Lodge. "This place is bursting at the seams. People want to move in here because they feel safe among their own kind. It might appear rough but there's a great sense of community."

For many years the people of New Lodge have lobbied for a community centre. Applications for funds were met with government resistance.

New Lodge is the territory of Sinn Féin, the IRA's political wing, with which the Government refuses to have contact.

The people of the area started their own planning and fund-raising programme. A special share scheme, with each household in the area paying a pound a week for set periods to become shareholders, has raised nearly £30,000.

That has been a considerable achievement in an area where

unemployment is more than 70 per cent, with nearly 80 per cent of those between 16 and 25 without jobs.

The Government was finally convinced of the need for the new centre, which will include workshop and job training units as well as retail outlets. It is contributing £400,000 to the scheme, with a similar amount coming from the International Fund for Ireland.

The work of the Government-sponsored "action teams" - set up to work alongside local community groups and to help liaise with government departments - is praised by the people of New Lodge.

"The Government seems to realise now that top-down schemes don't work. First you have to involve local people and get their approval," says Mr McAloran.

Until the late 1980s and the start of "the troubles," New Lodge was a mixed area, although even then certain streets were "orange," others "green," with skirmishes often occurring.

Then in the 1970s the religious geography of New Lodge

and many other parts of working-class Belfast radically changed. Residents of entire streets moved out of one neighbourhood and into another in what was the most sudden and wide-ranging population shift in post-war Britain.

Things might be more peaceful today than in the early 1970s. There are fewer killings. But Belfast working-class communities are considerably more divided. "The Government likes to say life is more normal now," says Mr McAloran. "But if this is normality, then something is very wrong."

That view is heard just as often across in the Protestant Shankill area as in Catholic districts such as New Lodge.

Residents of New Lodge might not approve of the IRA, but sympathy to the presence of the security forces is as strong as ever. Residents say there is often no apparent reason for army actions: they say saturation searches have become more common.

One woman says she has had her house "wrecked" by the

army five times in the last two years. "Four or five army men just move in. They shut the doors and... keep us in one room, then dig up floors, rip out walls. Then... the housing people come along and find out how much compensation to give for the damage. It's crazy."

It is also part of a vicious circle. More IRA activity, or suspicions of it, brings more security. In turn, that causes more friction and more violence. People become defiant and alienated.

As in many parts of Northern Ireland, there are plenty of paradoxes. Trouble can break out at any time in New Lodge - yet people still persist in the old habit of keeping their front doors open. Children might have been influenced by the violence around them. But they are also comforted by a community where everyone knows everyone else.

Mrs Mary Blakely sits knitting in the new neighbourhood playgroup centre, a model of tranquillity amid tens of screaming children. "I'd never live anywhere else," she says.

CB/FT DISTRIBUTIVE TRADE SURVEY

Optimism recedes as sales growth slows for wholesalers and retailers

By Peter Norman, Economics Correspondent

THE LATEST Confederation of British Industry/Financial Times distributive trade survey shows a slowdown in annual sales growth among both retailers and wholesalers last month and continued depressed conditions in the motor trades.

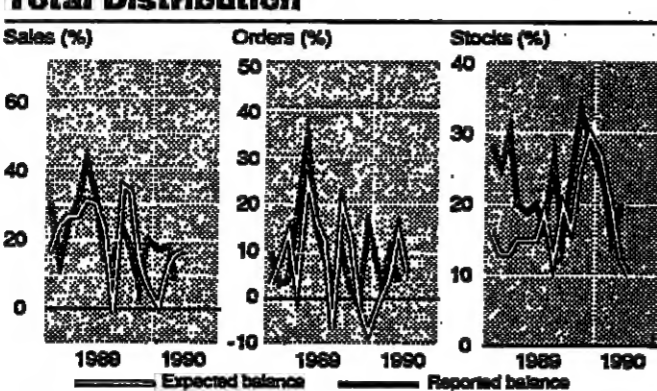
According to the survey, which polled 518 companies in the retail, wholesale and motor trades between March 9 and April 5, sales volumes grew more slowly in the year to March than in the year to February. Of the 518 concerns surveyed, 37 per cent said sales rose last month; 35 per cent said sales were unchanged and 28 per cent reported a drop in sales.

The resulting 9 per cent positive balance, which indicates the trend, compares with a 19 per cent balance in February and is below expectations.

A positive balance of 18 per cent of the distributors polled said they expected higher sales in April. However, such optimism has been misplaced in the past. Last month, a balance of 17 per cent of respondents said they expected higher sales in March.

Of the 299 retailers ques-

Total Distribution



tioned, 46 per cent said that sales volumes in March were higher than a year earlier while 28 per cent said they were lower. That left a positive balance of 18 per cent reporting higher sales, down on February's 30 per cent balance and the lowest result since November last year.

The outturn last month compares with a 29 per cent positive balance of companies that expected higher March sales when polled a month ago.

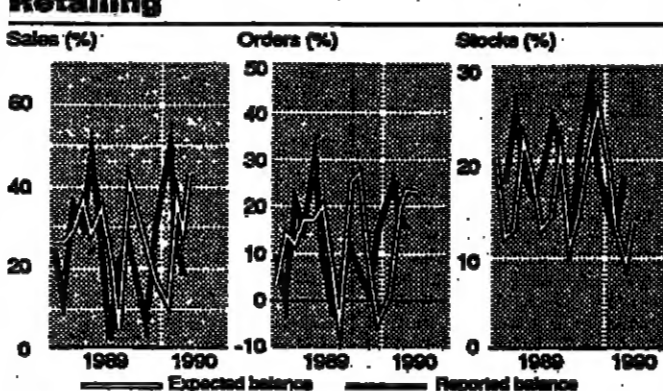
However, retailers appeared optimistic about prospects this

month. Some 51 per cent said they expected high sales volumes in April, compared with only 9 per cent expecting lower sales.

The result was a high positive balance of 43 per cent. A positive balance of 22 per cent of retailers said they expected sales would be good for the time of year this month, compared with 18 per cent reporting good sales in March and only 9 per cent who expressed satisfaction with sales in February.

Chemists, grocers and sellers

Retailing



of confectionery, tobacco and newspapers reported the best sales increases last month. Those groups, together with retailers of footwear and leather goods, were the most optimistic about sales in April.

Booksellers and retailers of household items such as textiles, furniture and carpets said sales in March fell below last year's levels and expected lower sales in April.

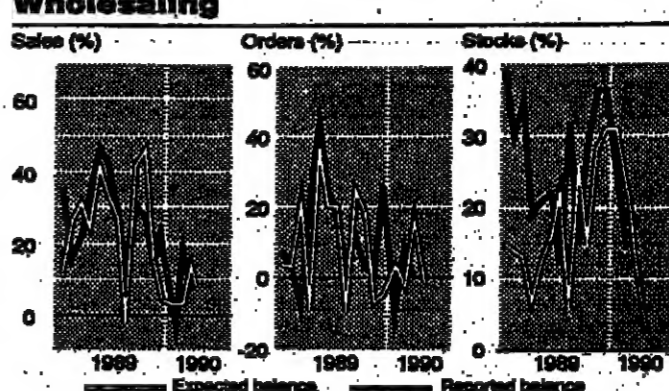
Altogether, the level of orders placed with suppliers by retailers fell slightly last month while stocks grew some

what in relation to expected sales. A similar picture of slower sales growth emerges from the poll of wholesalers.

Of the 161 wholesale companies polled, 31 per cent said sales were higher last month compared with 25 per cent reporting a drop in sales and 44 per cent that said sales were unchanged. The 6 per cent positive balance for March compared with 19 per cent in February.

The 6 per cent balance in March is the second lowest since June 1984. A balance of

Wholesaling



only 7 per cent of wholesalers expected sales in April relative to a year ago.

Wholesalers were disappointed with sales in March, with only 15 per cent saying sales were good for the time of year, against 27 per cent saying they were poor. The firms polled were similarly gloomy about April.

Food and drink wholesalers reported and expected the best sales increases in March and April respectively. Builders' merchants and companies handling industrial materials, farm

machinery, and office equipment reported lower sales in March compared with the year before.

A gloomy picture emerged from the 58 motor traders polled. Only 30 per cent reported higher sales in March, compared with 50 per cent who said that sales were down on a year ago.

A balance of 19 per cent said that sales last month were poor for the time of year while 29 per cent expected sales in April also would be poor.

Pipes and drums mark Easter in N Ireland

By Ralph Atkins
In Bangor, Co Down

NORTHERN IRELAND marked Easter not with much reconciliation but with pipes and drums. Loyalist emblems and Republican ovals, to prove that time has healed few wounds in the Province.

Police ringed the seaside resort of Bangor yesterday as the Protestant Apprentice Boys marched to commemorate the defiant slaying of the gates of Derry in the face of the Roman Catholic armies of James II at the start of the 1689 siege of the town. The crimson flag that had flown over Derry was picked out in the gold tasselled collars of Apprentice Boys club members, who wore bowler hats and ceremonial swords.

On Easter Sunday, nationalists paraded behind Irish tricolours through the Catholic stronghold of West Belfast to mark the 1916 Easter Uprising in Dublin against the British Army.

At the bleak Republican Milltown cemetery, they cheered a defiant message of support for the IRA, read by a concealed Republican supporter.

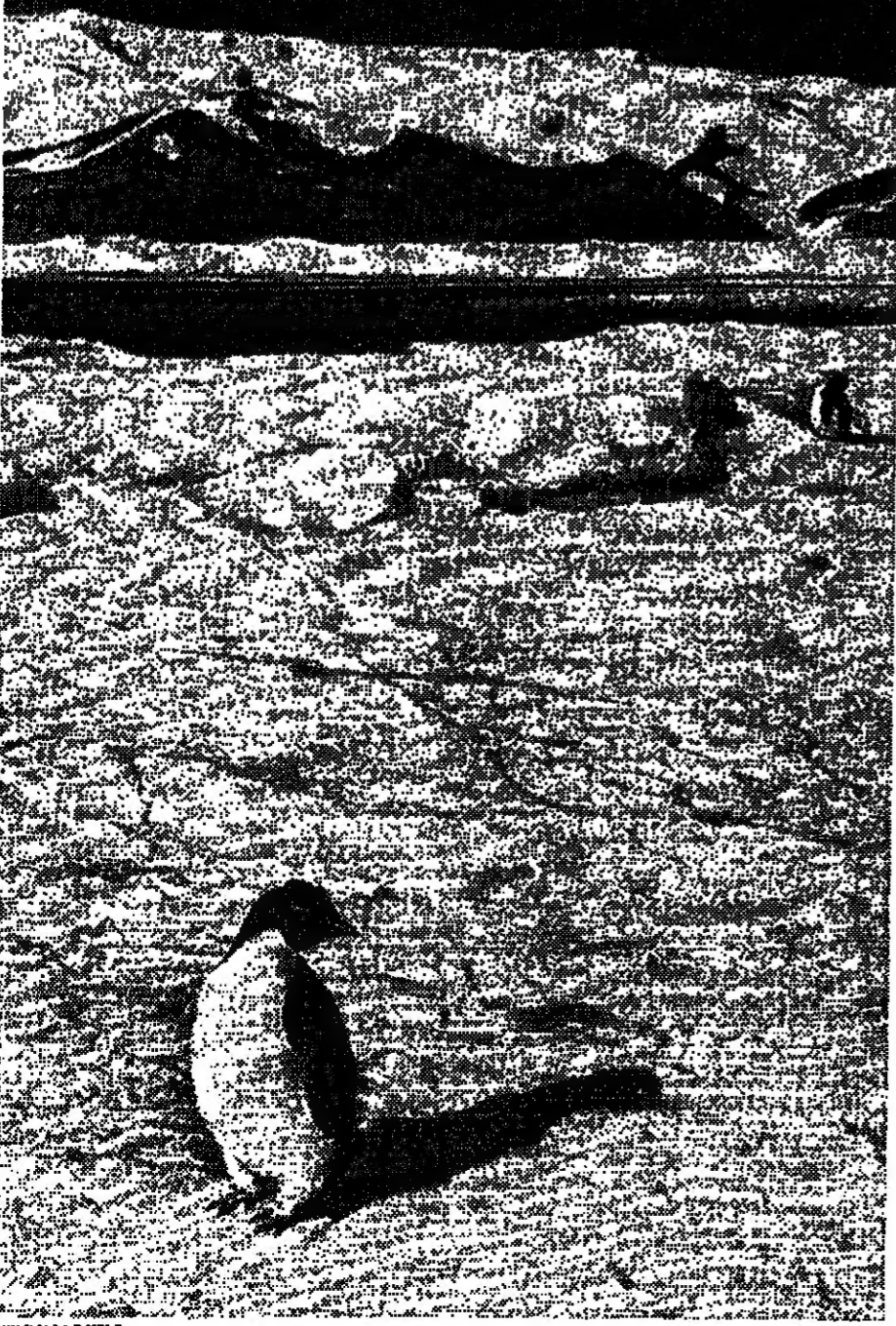
Mr Gerry Adams, president of Sinn Féin, signalled no let-up in the armed struggle in his oratory for dead heroes, as police and army kept a discreet distance, before a hailstorm led the protesters to disband.

For the apprentice boys, this year's marching season has particular poignancy on the 50th anniversary of the Battle of the Boyne, when William of Orange defeated James II - and to according to the sympathetic interpretation of march veterans, secured the future of Protestantism in Europe. The only concessions to the 1990s were the odd flick of hair gel and the hamburger stand.

The bands took more than half an hour to stream out of Bangor's Castle Gardens. Some estimates put the number of participants at more than 5,000. Each band wore its own uniform - from the black of the Shankill protest boys to the sky blue suits and orange feathers of the Crumlin Young Loyalists.

Standardbearers carrying Union Jacks led side-drums, pipers and accordion-players, while in the centre of each band danced the bass drummers, oblivious to the weight he carried.

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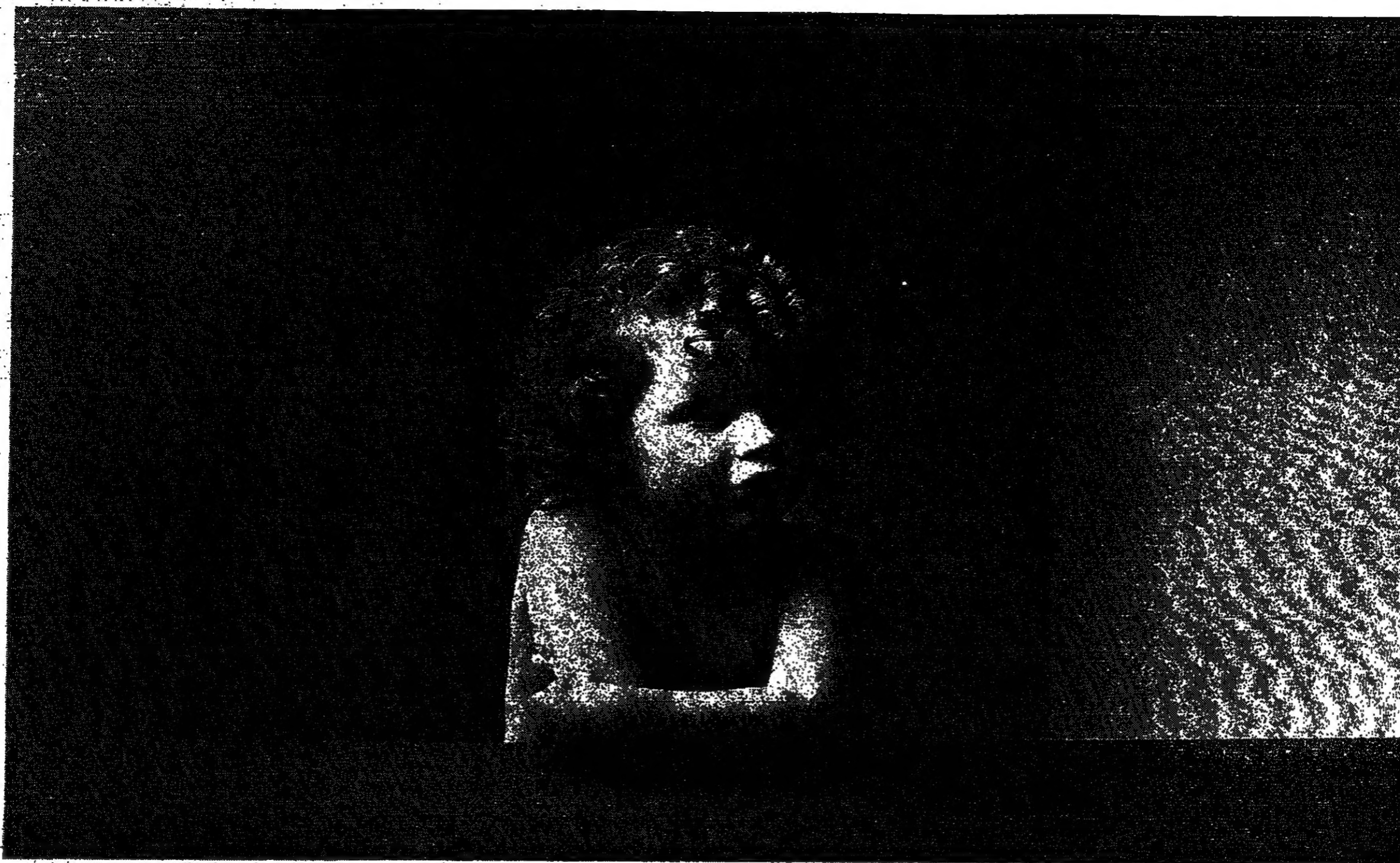
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UK NEWS

Patten's role in counter-attack

By Michael Cassell, Political Correspondent

MR Christopher Patten, the Environment Secretary, yesterday joined in the Conservative Party counter-offensive intended to limit the extent of the now widely expected Tory losses in next month's local-council elections.

Mr Patten, who will be a prominent member of the government's electioneering team up until May 3, attacked Labour councils for over-spending. He also accused the party nationally of supporting high spending and high taxation.

Mr Patten's remarks, in a letter to his local constituency chairman in Bath, coincided with the publication of a Conservative Party attack on what it described as "Labour's false prospectus" for next month's

elections. The document, entitled *Beyond the Rose*, sets out 11 policy areas, ranging from the replacement for the poll tax to local-government restructuring, claiming that the Opposition is refusing to spell out the details of its proposals.

It claims that Labour's plans for a "roof tax" would be deeply unfair and attacks the party for failing to say before the council elections how the tax would operate, who would be liable and how it would be related to incomes.

At the weekend, Mr Patten was trying to take some comfort from a poll the results of which suggested that 71 per cent of people supported the idea that everyone should con-

tribute towards the cost of local-government services.

He said it demonstrated strong support for the principles behind the poll tax, provided the less well off were helped.

In his letter yesterday, he said that if a Labour government was elected, people living in Labour-controlled boroughs would face "the ultimate socialist double - rocketing local bills and soaring income tax".

Mr Patten said it was not surprising that most of the 21 councils to be charge-capped were Labour-run.

"Labour council after Labour council would regard the charge of overspending as a political battle honour: some-

thing to brag about," he added.

Mr Neil Kinnock, the Labour leader, will launch the next phase of his party's local election campaign tomorrow, claiming that the Tories have lost the trust of key groups of voters who have supported the government in the past.

Labour morale has been further buoyed up by a weekend opinion poll suggesting that the Tories might lose up to a quarter of the seats they are defending next month.

Tory flagship councils such as Wandsworth, Westminster and Derby might be at risk and their loss would further increase pressure on Mrs Margaret Thatcher's leadership.

Labour leaders, however, are trying to play down the pros-



Christopher Patten: attack on Labour's "roof tax"

pect of massive gains, for fear that failure to achieve over-ambitious targets could damage its present high standing with the electorate.

Businessmen protest over rate

By Richard Evans

A GROUP of businessmen in Bath, the constituency of Mr Chris Patten, Environment Secretary, is refusing to pay the new uniform business rate. Its members claim the big increases are driving them into bankruptcy.

Mr Nick Troup, co-chairman of a bakery business facing rate increases of 420 per cent, said: "We know we are advocating breaking the law by not paying rates, but we feel we must do something."

They are instead paying their first rates instalment at last year's level, plus 8 per cent to allow for inflation.

The protest follows the introduction on April 1 of the UBR, linked to the first revaluation of commercial property for 14 years, which has hit prosperous centres such as Bath particularly hard. Small busi-

nesses in the city, especially retailers, face increases of 500 per cent or more in their rate bills over the next five years.

Mr Troup is one of the founders of BARRB (Business Against Rate and Rent Increases in Bath). He said: "We are very concerned that the new UBR, coupled with rent increases, poses a real threat to businesses in and around Bath."

He added that 40 to 45 businesses had already gone under due to high rent increases.

The Scottish National Party yesterday backed immediate abolition of the poll tax and its replacement by a local income tax based on ability to pay.

In a briefing paper published at a news conference in Edinburgh, party officials promised a complete reform of local authority finances to reflect

"fairness, democracy and ability to pay."

Mr Alasdair Morgan, national treasurer of the party, said it wanted a local business tax to replace non-domestic rates, based on turnover and reflecting businesses' ability to pay.

He called for an end to a £48m rating disparity, which he said put Scottish companies at a disadvantage against their English competitors.

He also criticised Labour's proposal for a roof tax to replace the poll tax or community charge.

"Labour's Roof Tax is not only grossly unfair but would take at least five years to implement. Thus Labour would expect Scots to continue to pay the Tory poll tax for the entire lifetime of a Labour govern-

Stakes are high in a popularity test for Thatcher and the poll tax

Alison Smith looks at the wider implications of the Wandsworth and Westminster council campaigns for the Labour and Tory parties

THE FUTURE of the poll tax and the Prime Minister may be decided on the streets of Earlsfield in south London and St James's in the West End, as local-government campaigners battle for control of the two Tory flagship councils - Wandsworth and Westminster.

The two councils have a high Tory profile and a low poll tax - at £148 and £195 respectively - but the Tories are in control by the narrowest of margins. At Westminster, they have a majority of four among 60 councillors, while their majority in Wandsworth is just one in a 51-seat council. A swing in the votes of fewer than 200 electors could determine the results in the two boroughs.

The stakes are high for both parties. Tory success in next month's elections would be hailed by the party nationally as a vindication of the community charge, even if local Tories would prefer to see them as a tribute to their record.

For Labour, stealing the jewels in the Prime Minister's crown would be a damning verdict on the poll tax, and a damaging - perhaps fatal - blow to Mrs Thatcher's standing in her party.

"It's almost all or nothing for



LOCAL ELECTIONS

Labour in this election," said Mr Paul Dimoldenberg, the leader of Westminster's Labour group, "and certainly for me." Mr Dimoldenberg has given up his seat in one of the borough's safest Labour wards, to stand in a Tory marginal where he has been taking on casework for some years. One of his colleagues is taking a similar risk.

The national element inevitably dominates discussion of local issues. Labour claims that the low poll taxes in both areas were fixed for this one year by central government, to favour the two councils Mrs Thatcher could not afford to lose.

In Wandsworth, the opposition says the low charge has been achieved by a £17m raid on reserves and by £116 - a

head help from the Government's "safety net," which limits local authorities' gains and losses on introduction of the poll tax.

The Tories' reply is to produce figures showing that, overall, Wandsworth receives less from central government in grant than any other inner London council except Camden.

In Westminster, only £3m from reserves has been used to support the poll tax this year. However, Labour claims that the Government's upward revision of the standard spending assessment to take account of daytime population was designed particularly to benefit Westminster, which has a daytime population of 1m, but only 170,000 residents.

The Tories, however, point out that this year they have had to pay £76 a head into the safety net, and that they have consistently improved efficiency to enable them to set a low charge.

Both boroughs now symbolise the new face of Tory local government, but have previously had more mixed fortunes.

The Tory hold on Wandsworth has been slight but tenacious for more than 10 years. They have raised the profile of "the brighter borough" and have taken the lead

in privatising and contracting-out local-government services, and selling council houses.

Mr Christopher Chope, their previous council leader, was elected to the Commons in 1983 and is now a junior environment minister. Sir Paul Beresford, their present leader, was knighted in the new year's honours list.

The recent path for Westminster Tories has been more chequered. A good result in the 1982 elections, "the Falklands election," as they acknowledged, led to a more relaxed campaign which lost them seats in 1986. Labour came within just over 100 votes of gaining control.

Mr Dimoldenberg believes that that, Labour's best performance in the borough, came from basing a strategy on the demographic trends in the first half of the 80s, when many middle-class Tory voters who had been living in mansion blocks left, and the flats were sold predominantly for holiday and company lets.

To many outside the borough, Westminster is irretrievably associated with the sale of three cemeteries for 15p, but the Tories insist that residents are more concerned about the provision of services.

Mr Barry Legg, the Tory chief whip, says: "It's not an

issue with ordinary residents in Westminster. Local people are more interested in whether the streets are clean, and whether the community charge is at an acceptable level."

Westminster Tories' emphasis on local issues is slightly undermined by the close link between Lady Porter, their high-profile leader, and the Prime Minister, giving them less room than their Wand-

sworth counterparts to distance themselves from the plight of the national party.

Wandsworth Tories themselves are campaigning on their record of inexpensive but efficient services, combined with a vigorous attack on Labour-controlled Lambeth.

The example of Lambeth's £548 poll tax - capped by Mr Chris Patten, the Environment Secretary, to reduce it to £497

- is already on the way to over-exposure. The streets that form the border between Wandsworth and neighbouring Lambeth look likely to be worn smooth by visiting politicians.

Sir Paul Beresford describes Lambeth as "a good example of the way Labour runs the inner cities - it's not a good example of how to run the inner city." Campaign slogans draw heavily on the Lambeth experi-

ence. Ms Fiona Macgarratt, the leader of the Wandsworth Labour group, is angered by the Tory approach, which, she admits, has worried some people.

She says: "They're not getting up and saying 'Fiona Macgarratt is a wreck, or a mob leader,' because they know that if they argued that everybody would laugh at them. But they're using language in a way which implies that, which is very clever, and very dishonest."

Yet both in Wandsworth and Westminster, Labour has taken pains to acquire a moderate and realistic image, admitting that most of the electorate in both areas gain from the poll tax. In Wandsworth, Labour has said that it would have set a poll tax of £171 this year, while in Westminster, it said it would have set a poll tax of £220.

Against his expectations, the Tories should lose control of Wandsworth, Sir Paul Beresford says. "It will be because we have not got over to people that it's a local campaign on local issues."

By putting the poll tax centre-stage at the start of the campaign, Mr Kenneth Baker, the Tory party chairman, may not have made his colleagues' task any easier.

Chat to be relaunched by IPC

By Raymond Snoddy

WHEN Reed International became owners of Chat magazine last year as part of the £110m TV Times acquisition the joke was that the entertainment-based tabloid was the "tree cover gift" with the TV listings magazine.

With a circulation that had slid from nearly 700,000 to just over 300,000 since 1986, the only question seemed to be when the closure of the magazine would come.

Instead, this week IPC, Reed's UK magazine division, will announce its biggest relaunch yet. Chat will be reborn as a glossy-covered addition to the company's stable of women's weekly magazines that hold a dominant share of the market in spite of increased competition from continental European publishers.

"The first question was what to do to avoid closure," says Mr Mike Matthews, managing director of the IPC Women's Magazines Group.

Then we realised that what we had got behind this facade of a tabloid newspaper was another new product and one where somebody had already done the hard work," Mr Matthews added.

More than 40 focus groups of consumers have had their say in the metamorphosis of Chat, which has cost around £2m, including £1m being spent on a national television campaign.

The new target circulation is 1m copies a week. The new Chat will be aimed at mid-market women aged between 25 and 34 and will be intended as competition for Take A Break, West German publisher Bauer's new entrant to the British women's magazine market, and the more established Bella. Chat's first issue comes with a free clipboard and pen.

After the Chat relaunch, Mr Matthews intends to "let the market settle down for a while and give us all time to consolidate."

Mackie set to lose 130 jobs

JAMES Mackie and Sons, the west Belfast engineering company, is shedding 130 jobs. The company is on the verge of being taken over by Lunnus, the US textile company, in a £20m deal.

Lunnus plans to move to a smaller, more efficient site in west Belfast.

US investment in energy company

By David Thomas, Resources Editor

UTILICORP, a large US energy utility based in Kansas City, is making its first investment in the UK in a further sign of the liberalisation of the British energy market.

Utilicorp's move into the UK is an example of growing US interest in investment opportunities arising out of the liberalisation of the UK energy market. Enron Power Corporation of the US confirmed last month that it was to build and operate the world's biggest gas-fired power station at Wilton, Texas.

Utilicorp, a gas and electric utility which operates in

eight US states and in British Columbia, had net income of \$48.31m (£28.6m) on operating revenues of \$781.933m last year.

It has paid \$1.7m for a 19.9 per cent stake in Norland Pipelines, a company established in February. Utilicorp has already announced that it intends to invest up to \$200m in projects arising out of the privatisation of energy utilities in Europe. British Steel has also taken a 25 per cent stake in Norland, the remainder of which is owned by individual investors with a background in the energy industries.

Mr Robert Howell, Utilicorp's vice-president of corporate development, said that Norland was intended to take advantage of the deregulation of the UK gas market.

Dr Alan Horan, a former British Petroleum executive who founded Norland, said he was still working on Norland's detailed strategy.

The Government is expected to give the go-ahead soon for a new combined-cycle gas turbine power station at Killingholme in South Humberside to be built by National Power, one of the two generators in to be privatised.

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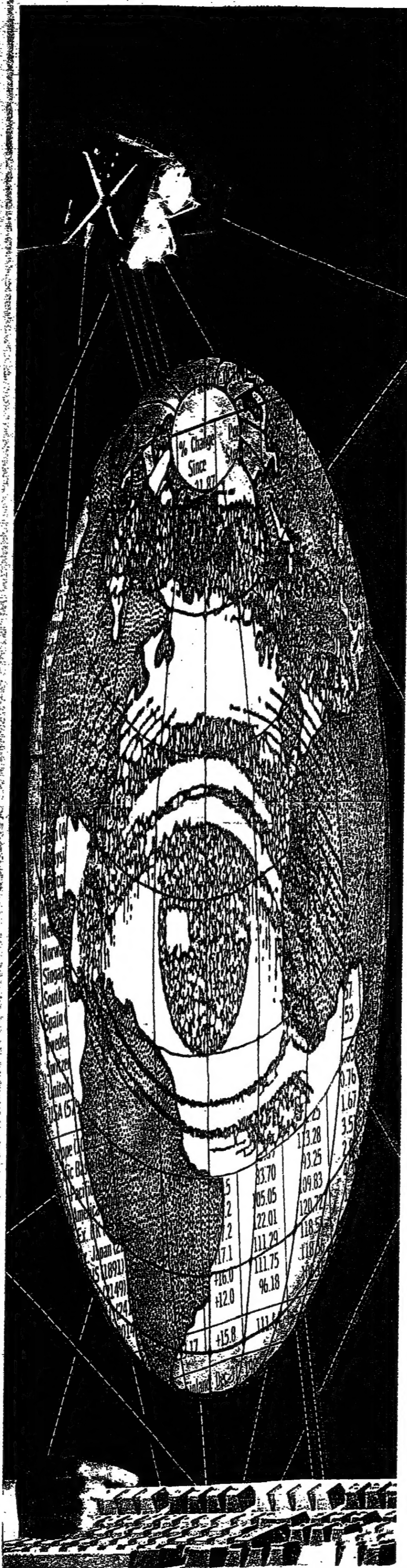
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A few years ago we talked of multi-national companies with reverential awe.

It seemed then that only the very largest organisations could genuinely transcend national borders.

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Just as these businesses are expanding out of the narrow confines of their home market, so too must the investment world.

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UK NEWS

Profit fear in accounting rule change

By Richard Waters

A PLANNED accounting rule change would wipe nearly 10 per cent off the reported profits of the average large UK company, according to research to be published later this week.

The projected fall would result from a proposal from the Accounting Standards Committee that companies should write off the goodwill that arises from acquisitions against their profits over not more than 20 years, except in rare cases. At present they can

write it off immediately against reserves, leaving profits untouched.

The research, by Peter Walton of City University Business School, London, and Harold E. Wyman of University of Connecticut, confirms the fears of the many finance directors who have attacked the proposed change. Those fears persist, in spite of assertions from accountants, academics and others that a mere accounting change of this nature has no

effect on the way the outside world views a company.

The research, to be presented at a conference of the European Accounting Association in Hungary later this week, is based on three years of accounts filed by 20 UK companies that are listed in the US. Since those companies report in the US, which already has a goodwill rule similar to that proposed in the UK, they highlight the effect the change would have in the UK.

According to the research, goodwill charges in the US wiped an average of 4.6 per cent off the UK profits of the companies.

However, the US allows companies to write off their goodwill over a maximum of 40 years, compared with the UK's proposed 20, and most companies take advantage of the concession. That implies that the UK proposal would have about double the impact of the US rule.

Accountant supports solicitors' reforms

THE HEAD of the accountancy profession in England and Wales has called on the Law Society to give solicitors the freedom to enter into multidisciplinary partnerships with accountants, writes Robert Rice, Legal Correspondent.

Mr Philip Couse, president of the Institute of Chartered Accountants, says it should be for clients to decide whether mixed practices provide them with a better service.

He says: "It is the responsibility of the legal and accountancy professions to offer clients the opportunity to enable

them to make this choice." The Government's controversial proposals for reform of the legal profession will lift the statutory ban on solicitors forming multidisciplinary partnerships with other professionals. The Law Society, however, is expected to exercise its power to impose rules preventing solicitors from joining such practices.

The solicitors' profession has moved in recent years from being broadly in favour of solicitors having the freedom to form multidisciplinary partnerships to a position of out-

right opposition. Ostensibly its reasons for opposing such practices are that they will threaten the profession's standards of independence, integrity and objectivity.

Many observers fear that smaller solicitors' firms would be dominated by big accountancy firms if joint practices were allowed, and might ultimately drive small operations out of business by dominating the provision of legal services in England and Wales.

Mr Couse, writing in the Law Society's Gazette, argues that it is doing members of

both professions an injustice to suggest that just because they are operating in a joint practice they will cease to maintain standards of independence, integrity and objectivity.

Nobody, he says, is suggesting that they should be forced to join mixed partnerships.

Mr Couse adds that with business becoming more international, pressure is growing on legal and accountancy firms to pool their resources.

A mixed practice allows one-stop shopping for these services, also the benefits of economies of scale.

Lord Bruce-Gardyne: journalist, politician, author and outstanding individualist

LORD BRUCE-GARDYNE, who died yesterday at the age of 60, once wrote of Mrs Margaret Thatcher that she would "never be absorbed by the Establishment."

Although he came from a basically establishment background (son of an army officer,

OBITUARY

and educated at Winchester and Magdalen College, Oxford), the same could be said of him. Jock Bruce-Gardyne was an outstanding individualist whose career spanned the Foreign Office, journalism, membership of both Houses of Parliament and the authorship of

several books which will continue to be read.

His career as a diplomat was short, but clearly left a deep impression on him: he distinguished the Foreign Office and thought that many of its officers spent too much of their time trying to score points against the French. Thus he abandoned diplomacy for journalism and became one of the first foreign correspondents of the Financial Times - in Paris in 1956.

It was there that he achieved what he modestly regarded as his only "scoop". He was asked to find out what was going on at a meeting of Cocom, the Nato committee that sought to set the rules for strategically

sensitive exports to Eastern Europe. He came across a Japanese journalist who used to be a diplomat and who gave him a full transcript of the meeting marked "Nato: top secret". It revealed a huge row between the British and the Americans.

At the time, it was a sensation. Jock moved on to politics, but never gave up writing. When Nigel Lawson was editor of The Spectator in the late 1960s, Jock was one of the main contributors on foreign affairs and already the MP for Angus. The relationship between Lawson and Bruce-Gardyne was a nexus that was to continue for many years.

At The Spectator, Jock somehow seemed superior - in the

nicest possible way - because he was a member of Parliament while Lawson was still looking for a seat. Both were economic radicals with an admiration of France and an ability to write. Later they wrote a book together on decision-making in government.

In the general election of February 1974 Jock failed to be re-elected at Angus, while Lawson won the safe Conservative seat at Blaby in Leicestershire. Bruce-Gardyne had already made his mark in Parliament. He was one of the principal Tory critics of the Heath administration after its U-turn on economic policy in 1972, along with Nicholas Ridley, John Biffen and Enoch Powell.

In the economic sense, he was one of the forerunners of Thatcherism. Lawson's big days were still to come.

Jock returned to Parliament as member for Knutsford in Cheshire shortly before the general election of 1979. Mrs Thatcher had often said that she regarded him as "Cabinet material" and made him a junior minister at the Treasury in 1981. Nicholas Ridley moved in with him.

As he admits in his book, Ministers and Mandarins, published in 1986, Jock's spell at the Treasury was not a great success. The main difficulty was that the British system of government does not allow much of a role for junior minis-

ters. In any case, he was again in trouble with keeping his seat Knutsford and he failed to find another constituency.

He was rewarded with a life peerage after the general election in 1985 and, as Baron Bruce-Gardyne of Kirkden in the District of Angus, played a full part in the Lords almost till the end.

It is tempting to say that that he was a better journalist than politician and that he was an amiable eccentric who insisted, for instance, on riding a clapped-out bicycle when he could perfectly well have used more conventional means of transport. Both judgments,

however, would seriously underestimate the man.

Jock Bruce-Gardyne was a serious figure who often reached the right conclusions long before other politicians and journalists. The writing and the politics went together. He was right to be critical of the Heath U-turn. His book, Mrs Thatcher's First Administration: the Prophets Confounded, is one of the best that has been written about the period.

In it, he made the perceptive point that his shifts in British policy had to take place in mid-administration rather than at general elections. Mrs Thatcher's first term was different.

As for eccentricity, it was more a stubborn independence.

He was an individualist, but not a loner. He worked hard and kept his deadlines. Last year he wrote a moving article in The Spectator about what it was like to know that you did not have much longer to live. What else could you do, he asked, except go on trying to carry on what you had done before?

He went on writing and he went on thinking. It was always a pleasure to talk to him and to read him. Jock will be remembered after many people who achieved higher political office have been forgotten. He leaves a widow, Sally, and three children.

Exhibition deals found to be against public interest

By David Churchill, Leisure Industries Correspondent

PREFERENTIAL treatment given to some electrical contractors in supplying services to London exhibition venues operates against the public interest, the Monopolies and Mergers Commission has decided.

The commission says the arrangements "restrict competition, discourage new entry into the market and inhibit the growth of potential competition."

The commission launched its investigation after complaints made to the OMT by some exhibition organisers that they were forced to give preferential treatment to electrical contractors nominated by the exhibition hall owners.

The commission's recommendations - accepted by Mr

Nicholas Ridley, Trade and Industry Secretary - to restore competition include:

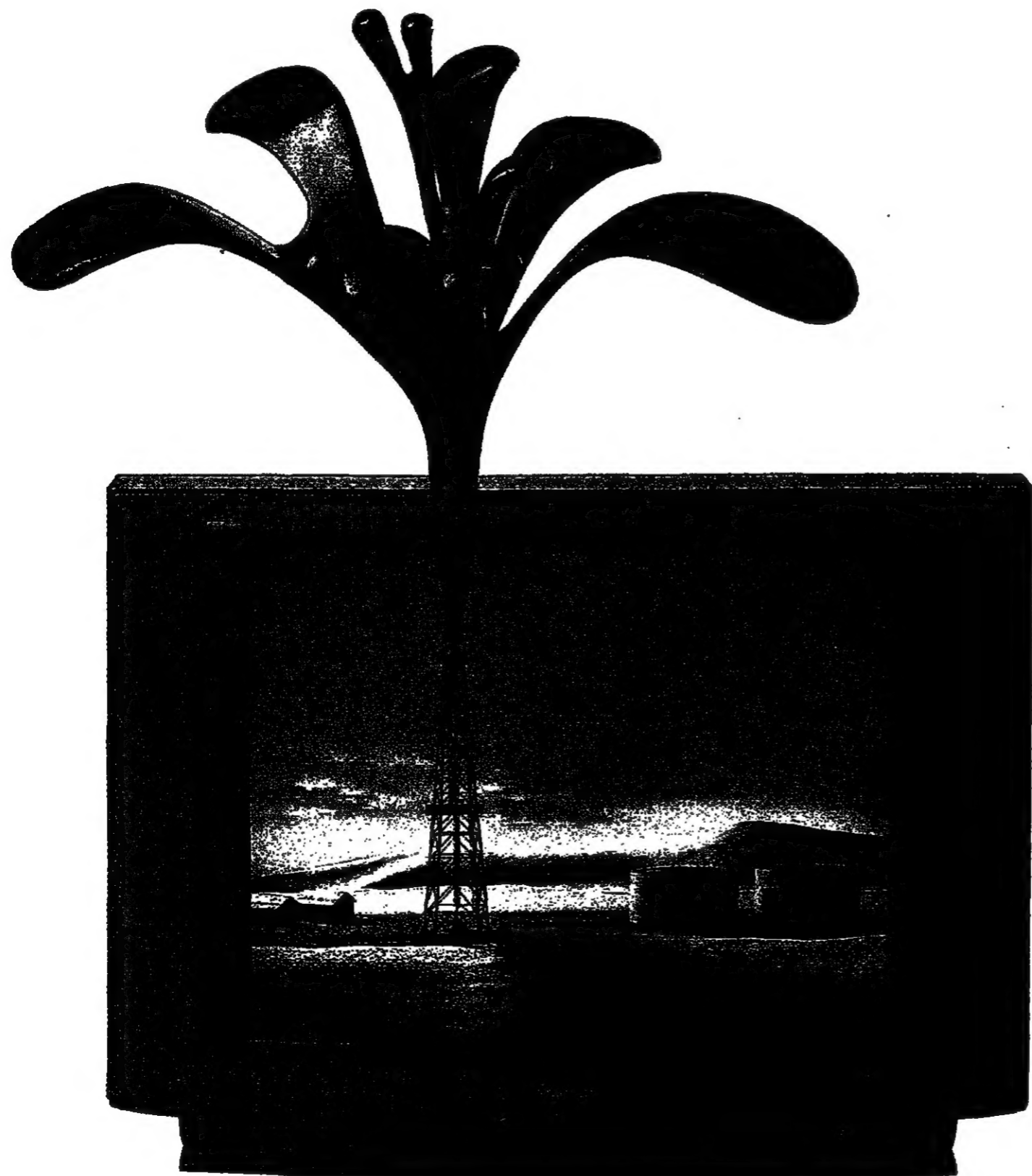
• "Tying arrangements" between exhibition hall owners and electrical contractors should be prohibited.

• Where a group of companies includes the exhibition organiser, the venue, and the electrical contractor, then neither the organiser nor the venue could use the same group's electrical contractor.

• Commission payments by electrical contractors to exhibition hall owners or organisers should be prohibited.

• A detailed schedule of prices of electrical contracting services should be available.

Electrical Contracting at Exhibition Halls in London; MMC; Cmd 985; HMSO; 27.40.



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10000	Am. Bk. Int. Inc.	327	-3	10.3	5.1	8.8
375	American and Mexican	25	-4	4.3	2.9	14.6
118000	Bardonia Group (SEI)	1500	-1	6.7	6.3	-
18421	Bardonia Group Co. Prof. (SEI)	1070	0	5.9	7.4	7.1
4839	Bay Technology	80	0	11.0	13.3	-
	Brenntag Corp. Prof.	83	-2	14.7	4.7	3.8
1178	CCL Group Ordinary	310	-1	14.7	8.8	-
2200	CCL Group 11% Cum. Prof.	148	0	7.6	3.6	12.4
16740	Carbo Pte (SEI)	2100	0	10.3	9.4	-
770	Carbo 7.5% Prof (SEI)	110	0	0.125	-	-
	Magnum Co. New Voting A Co.	0.125	0	-	-	-
	Magnum Co. New Voting B Co.	0.125	0	-	-	-
2900	Eds Group	91	-1	8.0	8.8	5.2
22180	Jackson Group (SEI)	108	-3	3.6	3.3	12.6
18940	Shakleton R.V. (AmcoSEI)	243	0	10.0	7.1	5.1
1428	Robert Justice	140	-1	18.7	4.0	5.6
17380	Scrivens	340	0	9.3	6.0	-
	United Energy Corp. Prof.	128	0	22.0	8.1	7.2
4465	Venerary Drug Co. PLC	270	-5	16.2	5.3	25.6
6877	W. S. Yates	307	-22	-	-	-

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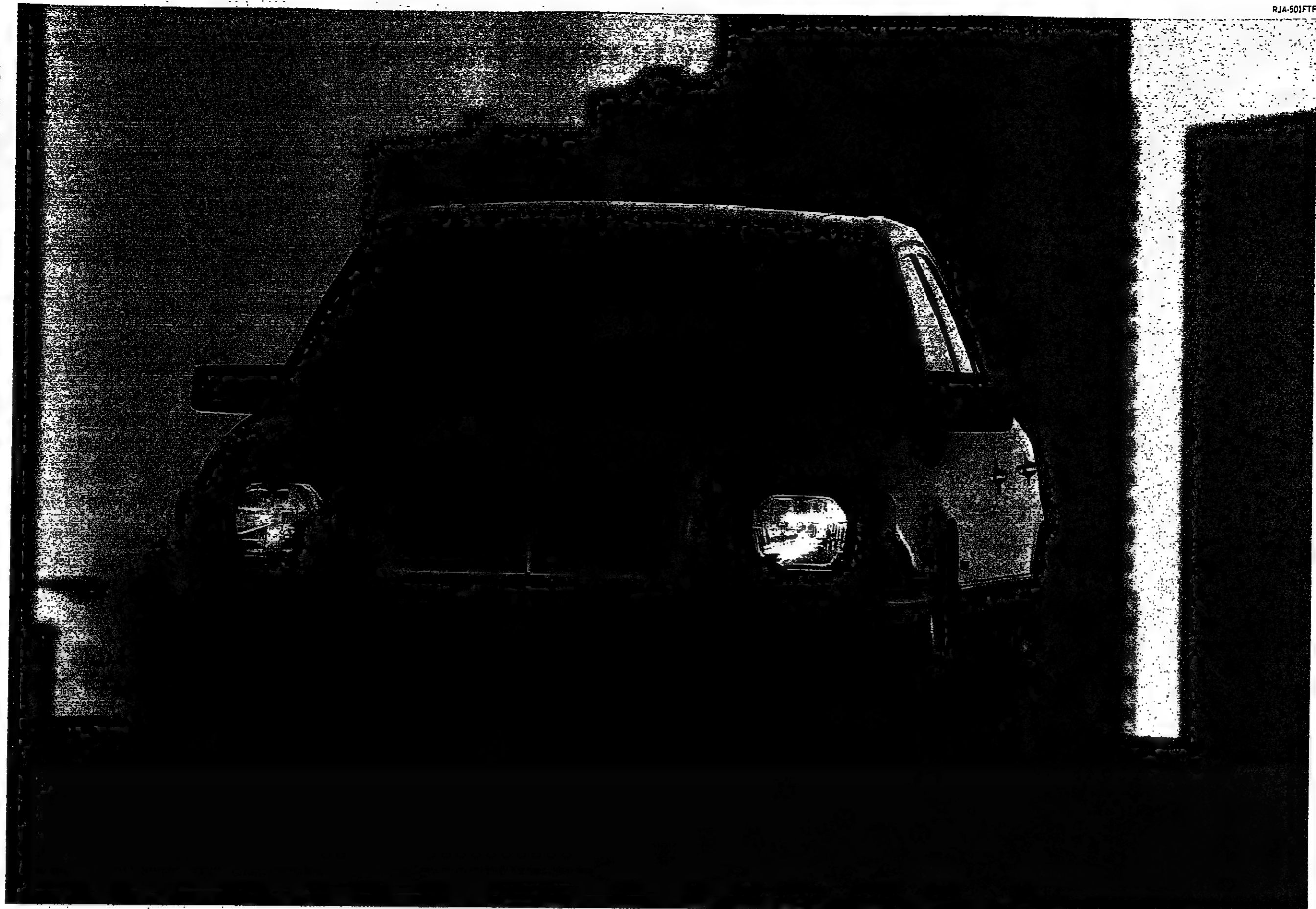
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UK NEWS

Recovery in retail trade may be short lived

By Peter Norman, Economics Correspondent

The Christmas and new year recovery in Britain's retail trade may prove to be short lived, according to the latest survey of distributive trades by the Confederation of British Industry, the employers' organisation, and the Financial Times.

The survey, which polled more than 500 firms in the retail, wholesale and motor trades in the four weeks to April 5, found that retailers' sales continued to grow compared with March last year, but at a slower rate than previously and below expectations.

The survey's findings are likely to be welcomed by the Government, which sees a slowdown in consumer demand as an essential part of its counter-inflation strategy. According to Mr Nigel Whitaker, chairman of the CBI's distributive trade panel, the

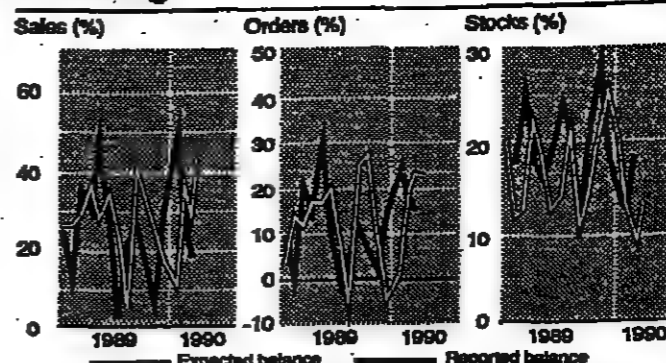
survey also failed to show an expected run-down in stocks last month. "This suggests that any recovery in retail trade since the end of last year may be starting to run out of steam," he said.

Further evidence of trends in retail spending will come tomorrow with publication of the Government's provisional figures for retail sales in March.

Late last week, expectations among City analysts polled by MMS International, the financial information company, ranged from a fall of 1.4 per cent to a rise of 0.2 per cent in sales volumes over the month.

The median forecast was for a 0.9 per cent drop in March sales volumes after February's 2.2 per cent rise, indicating that the City still expected a modest increase in sales compared with March last year.

Retailing



Not all Britain's retailers are suffering from the Government's high interest rate policy.

The latest CBI/FT survey reinforces the view emerging from financial reports that the

consumer slow down is having a differentiated effect on the retail trade. According to Mr Whitaker, "sales of essential, non-discretionary items continue to hold up well."

Last week, Tesco, the super-

market chain, reported a strong 31 per cent jump in profits last year while Next, the fashion retailer, moved from profit to substantial loss.

Today's survey reports that chemists, grocers and shops selling confectionery, tobacco and newspapers reported the best annual sales increases for March.

Booksellers, stationers and retailers of household textiles, furniture and carpets reported sales below March 1989 volumes.

The survey showed a similar pattern among wholesalers. Food and drink wholesalers reported the best sales increases, while builders' merchants, agricultural machinery dealers, industrial material wholesalers and wholesalers of office equipment said sales were lower than in March last year.

Power body reviews limits on competition

By David Thomas, Resources Editor

THE AUTHORITIES responsible for the new electricity market are considering whether to alter one of the main limits to competition built into the new regime just two weeks after it was created.

This unpublished move is intended to allay worries by industrial customers that crucial parts of the new electricity regime are not sufficiently competitive.

The new electricity market came into existence at the beginning of this month, but the Office of Electricity Regulation, the industry regulator, has already decided that a central aspect of the new regime may be too restrictive.

Under the rules, National Power and PowerGen, the two new electricity generators in England and Wales, must not jointly capture more than 15 per cent of the demand in any of the 12 area electricity supply companies.

In addition, National Power and PowerGen have to seek the regulator's permission if either wishes to sign supply contracts for more than 7 per cent of demand in an area.

These limits on competition are intended to protect the markets of the area supply companies which are due to be privatised this autumn. The limits were planned to last until 1994.

The Office of Electricity Regulation (OFFER), however, has now written to National Power and PowerGen asking each generator to estimate how much supply business it is likely to win in the 12 regions.

Once he has received the generators' replies, Professor Stephen Littlechild, OFFER's director general, is likely to propose raising the limit on competition in those areas where National Power and PowerGen are jointly expecting to win more than 15 per cent of demand.

The 15 per cent limit is most likely to be raised in Northern Electric, Norweb and Manweb, the three area supply companies in the North and North West, South Wales Electricity and possibly also Yorkshire Electricity.

These are areas in which industrial users of electricity account for a relatively

high percentage of total demand.

OFFER's initiative follows fears expressed by large industrial users that their choice of electricity supplier would be severely constrained in such areas by the 15 per cent block on competition.

It also comes after a round of supply negotiations last month in which National Power won contracts to supply 7 per cent of electricity demand in the region served by Manweb, which covers Merseyside, Cheshire and north Wales.

Prof Littlechild's initiative is timed so as to allow a relaxation of the 15 per cent limit before the end of May, when another round of electricity supply contracts is expected to be negotiated by large industrial users.

The first independent electricity generator's licence is likely to be granted today to Lakeland Power, a company controlled by Asa Brown Boveri, to operate a gas-fired power station at Barrow-in-Furness, Cumbria, north-west England.

Teachers Union to decide on UK boycott

By Norma Cohen, Education Correspondent

LEADERS of the National Union of Teachers, Britain's biggest teaching union, will today try to head off a teachers' boycott of the testing arrangements under the national curriculum, the new course work for secondary education.

The union's annual conference, meeting in Bournemouth, will vote on a demand from left-wing delegates for the NUT to examine how a boycott of testing could be organised.

An alternative suggestion for a campaign to modify the national curriculum, proposed by the NUT's leadership, was narrowly defeated yesterday.

All sections of the union yesterday criticised the mandatory testing arrangements under the national curriculum as unwieldy and unworkable.

The union's onslaught on the national curriculum came after the Prime Minister voiced significant concern about it at the weekend. Mrs Thatcher said she was surprised at the amount of detail in the history element of the curriculum and expressed concern that it placed too much of a burden on teachers.

She suggested that detailed tests were appropriate only for the three core subjects of English, mathematics and science.

Mrs Thatcher's remarks were the second significant Government retreat from its own Education Reform Act in a week. Mr John MacGregor, Education Secretary, announced last week that testing for seven-year olds in non-core subjects would be abandoned.

Mr Doug McAvoy, NUT general secretary, seized upon Mrs Thatcher's remarks, which he described as "astounding", to call on teachers to step up efforts to modify the national curriculum.

Union calls for block vote to be diluted

By John Gapper, Labour Editor

THE union block vote at the Opposition Labour Party's annual conference should be gradually diluted to less than 50 per cent of the conference voting strength following the next election, the GMB general union has recommended.

The GMB, which has 864,000 members and is the second largest British union, has suggested the plan as an alternative to its proposal last year that unions should form one of two "voting houses" at the party conference.

The union proposed at last year's conference that there should be a review of the policy-making process following disquiet at the block vote and other aspects of Labour's policy-making process.

In its response to the review, the union suggests that constituency labour parties and affiliated bodies - the bulk of which are unions - should eventually have an equal say in policy making but the change should be gradual.

It suggests that 50 per cent of the votes could be allocated to constituency parties and 50 per cent to affiliated organisations. At the moment, unions wield about 89 per cent of the voting strength at conference.

The union's original suggestion was for constituency parties and affiliated organisations to form separate "voting houses" at the conference giving each a veto on policy. However, this has been rejected by other unions as impractical.

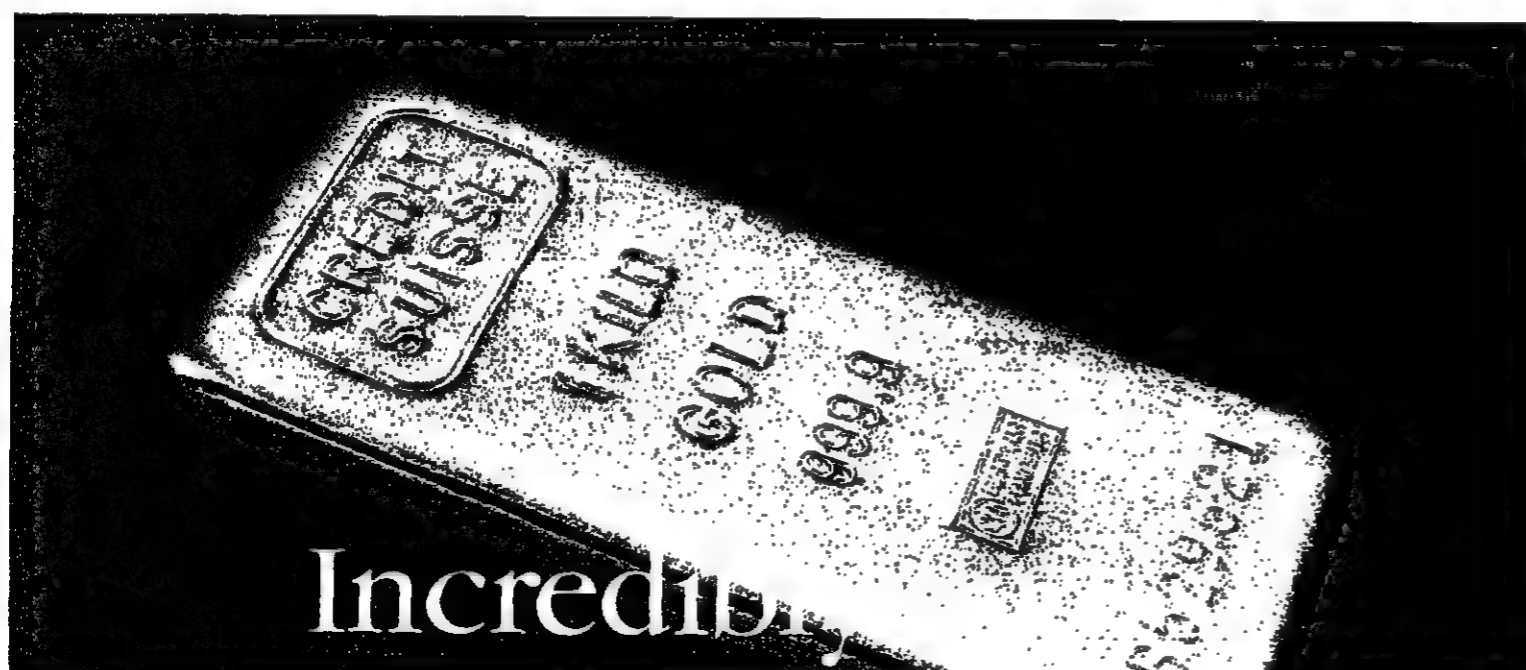
The GMB's response says Labour's national executive should propose to this year's conference that the constituency party share of the vote should be increased to 30 per cent under rule changes that would take effect in 1992.

The response reiterates GMB support for policy to be formed by a system of policy commissions which would examine two or three aspects of Labour policy each year. Their suggestions would form the basis of conference debates.

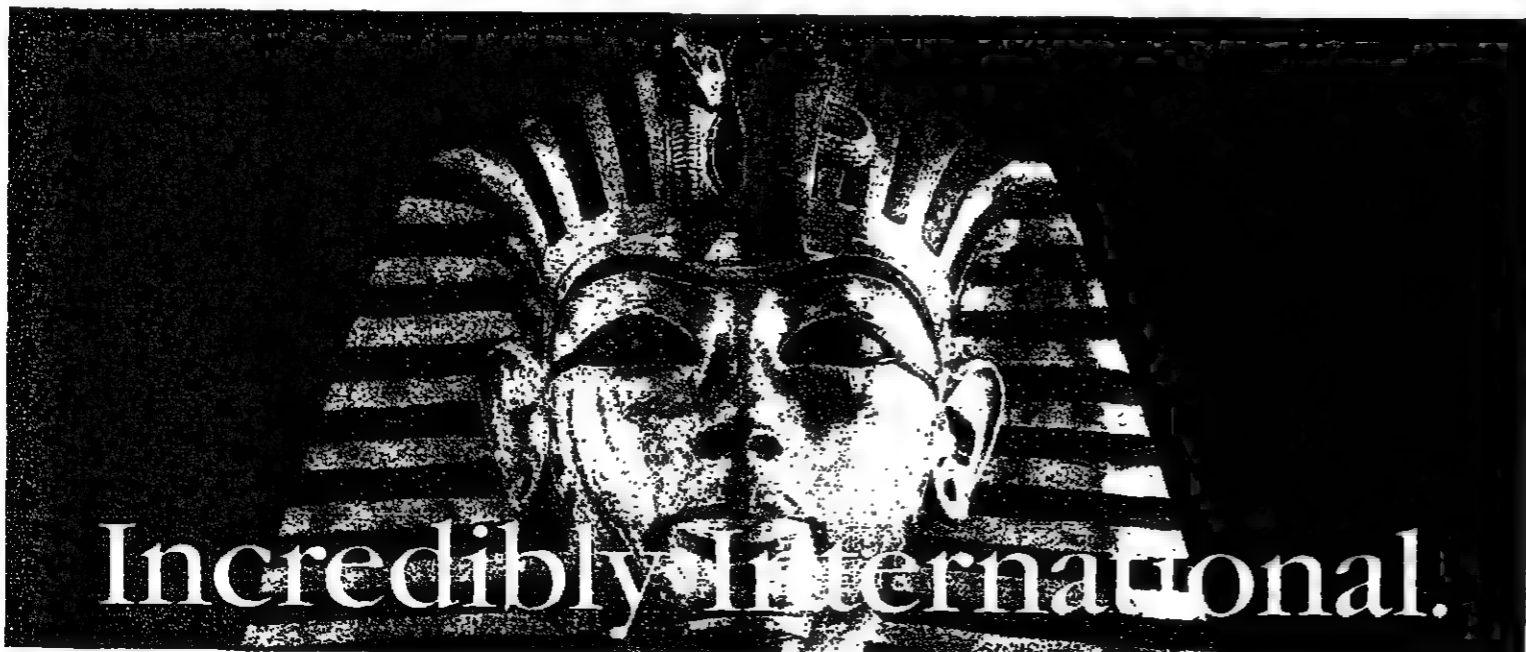
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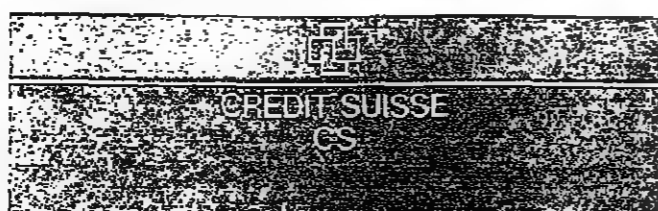


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Mom and Pop know best . . .

The 1980s may prove to be a decade when family-owned companies, with their qualities of continuity and commitment, will have an edge over the large corporations in winning customers and in exploiting product niches.

There is already a new respect in the business world, for corporate culture, values and tradition, all of which are important qualities of the family business, writes* Peter Davis, director of the family business studies division of the Wharton School, University of Pennsylvania.

Some family firms do still cling to their quirky, anachronistic ways and are slow to innovate but a new generation of leaders is emerging which is keen to see the business grow and open up to outside ideas, he claims.

Many successful companies in the US, such as Wal-Mart, Johnson's War, Mars Incorporated, the Marriott Corporation

and the New York Times Company, remain family-owned or controlled, Davis notes. One recent study showed that family-owned enterprises outperformed the overall market, as measured by the Standard & Poor's 500, by a wide margin over the past 30 years.

Despite these successes, problems at Wang Laboratories, and the enforced resignation last summer of Frederick Wang, son of the founder An Wang, only a few years after he had been installed as president by his father, prompted a new optimism of family firms and claims that big business could not be trusted to families.

The hazards of running a family business must be taken seriously, Davis acknowledges. Family and business cannot always be separated.

General Motors and Du Pont — do grow beyond the power of families to control.

But during this century the

separation of ownership from professional management and the rise of large corporate bureaucracies with unresponsive leaders has also created problems. The waves of mergers, takeovers and leveraged buy-outs are all signs that US business has strayed too far from its roots, says Davis.

Family-owned companies in the 1980s and 1990s will benefit from a growth in interest in the family business and at least 50 US universities now offer courses on family enterprise, he notes.

"In the February 1990 issue of Family Business, 38 Mahabadi Street, Great Barrington, 01230, Mass.

Peter Davis will introduce three one-day seminars on the theme of Family Business in 1990 and beyond in Birmingham (April 30), Manchester (May 2) and London (May 3). Contact Stoy Hayward Conference Services, tel: 01-607 5322. Fax £250 + VAT.

Hard work — before, during and after

What the fair did do for Farrell was to expose his products to a critical new market place and to teach him some important lessons about selling to overseas buyers. "I was encouraged by the level of interest and confirmed in my view that our product was right; that the quality was right and that price was the least important consideration," he says.

In the weeks that have followed the Nuremberg fair Playworks has got down to the hard work of converting the interest shown by buyers into firm orders. It has sent samples to the main West German mail order catalogues specialising in educational toys and contacted prospective buyers who left their visiting cards at its stand.

British companies spent £45m on trade, consumer and technical exhibitions in 1988, an increase of 50 per cent on the year before, according to the most recent survey by the Incorporated Society of British Advertisers. British businesses rented a total of 83,000 stands at 680 UK exhibitions.

This upsurge in interest in exhibitions has prompted some people in the industry to ques-

But whether or not there is a glut of exhibitions, the smaller business, which may be attending a trade show for the first time, needs to approach the subject with care. "Taking a stand at an exhibition is expensive and time-consuming and needs to be organised well in advance," says Yvonne Eskenzi of the London Enterprise Agency.

In some businesses, particularly in the consumer sector where products have a very short sales cycle, exhibitions can be used to take orders and make sales.

step towards making a sale — but exhibitions still act as a powerful magnet for suppliers, customers and potential customers. "You can meet a lot more clients in a shorter space of time than by any other method," notes Brian Morris of Crescent Associates, an exhibitions consultant.

As Suffolk Playworks found, exhibitions can also be an

Once the would-be exhibitor has decided just where exhibitions fit into his marketing strategy he must choose the most suitable event. A choice

How can the novice exhibitor tell whether the exhibition organiser is professional? "It needs research," suggests Brian Morris. Is the organiser a member of one of the trade associations; has the exhibition been held before; does the organiser have independently audited figures for attendance at previous exhibitions; is the catalogue well produced? How

meet demand if buyers place large orders. Some companies spend a lot of money attending exhibitions only to find they cannot produce in sufficient quantities to meet demand. "Some people quote you 10-day delivery but when you ask for 1,000 items they say it will take two months," says Macy's Ken Harrison.

Nor should exhibitors leave promotion to the exhibition

The design of the stand is important if potential buyers are to be persuaded to stop by. Although employing a professional exhibition designer may cost several thousand pounds, simply putting up a few posters is no substitute, says Paul Thompson, managing director of Reed Exhibition Companies, a large exhibitions organizer.

should make sure he or she is in the craft section of a large exhibition and not competing for attention with the likes of Doulton and Wedgwood, says Ken Harrison.

As Michael Farrell found in Nuremberg the exhibitor must have enough information on his produce, prices, discounts and shipping for the buyer to be able to make an instant decision on whether to purchase. "I need to know enough to be able to write an order,"

Useful reading: *How to Exhibit Successfully*, 15 pages, £5 from London Enterprise Agency, 4 Snow Hill, London EC1A 2BS; *How to Make Exhibitions Work for Your Business*, John Tulbot, 128 pages, £7.98, Kogan Page, 180 Pentonville Road, London N1 9JN; *Successful Exhibiting*, James Dudley, 234 pages, £22.50, Kogan Page.

Investment spending by small companies has fallen sharply from its peak in the first half of 1985 under the impact of high interest rates, according to a new All Wales Business Investment Index created by the National Westminster Bank.

Spending fell in the first half of 1986 to just 57 per cent of the level reached in the first half of 1985. In the second half of 1985, 73 per cent of that figure in the second half of last year, apparently as a result of an increase in acquisitions of other firms and the purchase of premises.

Taking the four main categories of small business spending the index showed a decline in working capital spending in 1986. The significant increase in

per cent from the level of early 1985. Equipment purchases fell 76 per cent; business purchases to 65 per cent; and property to 67 per cent.

A comparison of the spending across the four regions of England and Wales showed that the sharpest drop had occurred in the south-east. Investment fell to 51 per cent in the second half of 1986 from 61 per cent in the first half, possibly because of the greater concentration in that region of service industries which are most sensitive to consumer demand.

Spending in the south-west fell to 56 per cent; in the Midlands and Wales to 66 per cent; and in the north to 55 per cent.

Interest rates experienced during the last 18 months has clearly had an adverse effect on the viability of expansion programmes," says David Powell, NatWest's head of small business.

NatWest bases its index on the volumes of new lending made under its business development loan scheme, which is the principal means by which small businesses in the region finance their capital investment requirements. About £2.7bn is currently being lent to just over 200,000 companies. The bank has been anxious to compensate for changes in the retail price index and for the bank's market share.

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■ **Finance 90, an exhibition and conference for growing businesses, will be held on May 12-13 at London Olympia. The event is intended to bring together the managing and financial directors of smaller companies and to give them advisers to discuss ways of tackling decisions. A programme of seminars will be held throughout the exhibition.**

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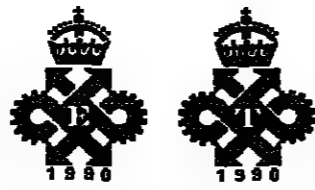
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CONSTRUCTION CONTRACTS

Chancery Lane project

BALFOUR BEATTY BUILDING has been awarded a £14m contract to build an office development at 35-38 Chancery Lane, London by Colville Court Development.

Work involves the construction of an 8,140 sq metre, eight-storey air conditioned office building with suspended ceilings and raised floors.

Balfour Beatty Construction (Northern) has won a £6.5m contract from Cookson-Fukada for the construction of a copper foil plant in North Shields, Tyne & Wear.

Stewart McGlashan, a Balfour Beatty Construction (Northern) specialist stone-masonry company, has secured three orders totalling £3m. The

largest is a £2.4m contract for the external cladding of Scottish Metropolitan's new financial centre in Edinburgh.

McGlashan has also been awarded a £551,000 contract for the construction of internal planters, walkways, stairs and entrances for the Compaq computer facility in Erskine, Scotland.

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Southwark offices scheme

SEVERFIELD-REEVE has won orders worth in excess of £5m for delivery by the end of June. The largest, worth about £1.7m, is to supply structural steelwork, steel decking and staircasing for a multi-storey office development at the Elephant and Castle, London.

A contract has also been won to supply about 300 tonnes of structural and composite steelwork for an office block in central London with erection scheduled for mid-May.

Stansells (Builders) has awarded a design and build order for structural steelwork, roofing and cladding worth £1.2m for a distribution warehouse project in Somerset with a total floor area of 180,000 sq ft.

Contracts worth more than £1.7m have been won in the North East of England. They include an order to design and erect 700 tonnes of structural steelwork for Fujitsu's new utilities complex in Durham and supplying 870 tonnes of steelwork for offices at Newcastle Business Park.

R Mansell wins £46m orders

Order books at R. MANSSELL have risen by £46m since the start of the year. The largest contract is the £7m project awarded by Commercial Properties for the construction of a six-storey office development at Giltspur Street in London.

The second largest is a £6m contract from the London Borough of Croydon to convert a high school into a 600 place centre for the John Ruskin Sixth Form College.

Other contracts include a £1.2m fit out for Lloyd's Bank's newly-acquired Eastcheap offices in the City and a £2.2m refurbishment of United Friendly Insurance's headquarters.

New City of London dealing facilities

TRY MANAGEMENT, a subsidiary of Try Group, has secured a contract for the fitting out of the 9th and 10th floors of Exchange House (Phase 2 of the City development project being constructed around Liverpool Street Station). The project is being undertaken for Societe Generale Strassmann Turnbull.

The two floors total 67,000 sq ft and are currently finished to a shell and core specification. On completion they will accommodate executive offices,

computer room, catering facilities and some 200 dealing desks incorporating the latest and most sophisticated communication equipment.

The estimated cost of the project is £7.5m and the contract period is scheduled for 23 weeks. Discussions are currently under way to reduce this period to just under 21 weeks.

Try Management has been awarded Phases 1 & 2 of the refurbishment of the King George VI Memorial Youth

Hostel in Holland Park, part of which was designed by Julgo Jones, for the Youth Hostels Association.

The project comprises the refurbishment of all sanitary accommodation to the two-storey building and to the three-storey east wing with alternative facilities being provided as part of the contract.

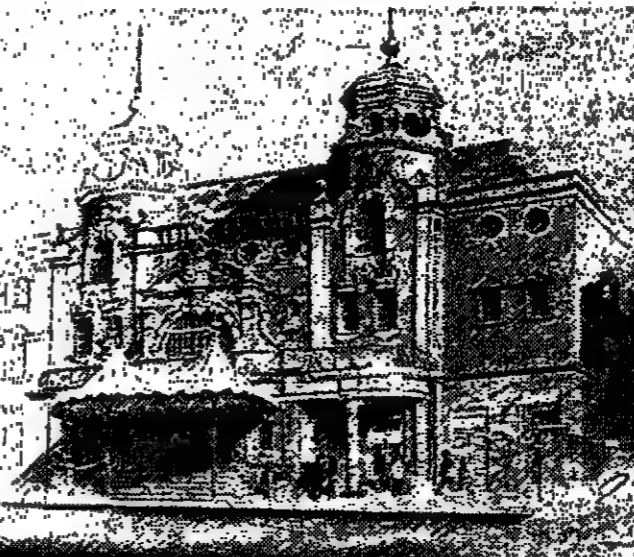
Phase 2 includes the refurbishment and refitting of all facilities to the dormitory areas whilst maintaining a high level of occupancy.

Expansion of local authority's offices

A £4.5m contract to alter and extend Castle Point District Council's office complex at Benfleet, Essex has been won by BEAZER CONSTRUCTION EAST ANGLIA, a subsidiary

company of Beazer Regional Construction. Work includes demolition of part of the premises, construction of a two-storey extension to the offices with a partial basement area

and alterations and refurbishment of the remaining offices including a new roof structure and fenestration. The project is due to be completed by November 1991.



JOHN LELLIOTT (MANAGEMENT) has won a £2m contract to carry out a refurbishment of Richmond Theatre (pictured), a Grade II listed building designed by the Victorian theatre architect Frank Matcham. The auditorium will be carefully cleaned and restored with improvements to seating arrangements and access points. Reconstruction of an annex will create additional administrative and bar space. Backstage facilities will be upgraded and the stage enlarged.

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A Letter from New York

Theft, censorship and untimely deaths

Paula Deitz looks back on an American art world season marked by a lack of tranquility

This has not been a tranquil season in the American art world. First, in what is being called the biggest art heist of the century, the Isabella Stewart Gardner Museum of Boston lost 12 irreplaceable works of art, valued from \$62.5m to \$225m, to thieves masquerading as policemen.

No value can ever be placed on Vermeer's *The Concert* which first hung in Mrs Gardner's Beacon Street drawing room from 1820 until she transferred it to a corner of her Venetian palazzo-style museum in 1903. The only Vermeer in New England, it was a veritable magnet to almost a century of Boston artists and art lovers.

Secondly, for the first time, the issue of censorship and Federal grants is being raised by the National Endowment for the Arts in connection with a travelling retrospective exhibition it funded of the late Robert Mapplethorpe's photographs, which contain sexually explicit images.

Finally, and most serious, the art community is facing an unnatural void created by the untimely deaths of bright, young vivacious artists at the peak of their careers, most recently Jean-Michel Basquiat, Keith Haring and Scott Burton. One cannot help but face the spring season in a more contemplative mode, and yet there are always exhibitions that spring simply because they prolong traditions.

Not since John Gero organized two exhibitions in the 1960's of the master drawings of Taddeo and Federico Zuccaro have these late 16th-century Mannerist works of the two brothers been seen in such a full display as is currently on view at the National Academy of Design (until April 29).

Earlier this year, the set of 19 drawings by Federico that chronicle the trials and tribulations and eventual triumphs of the elder brother Taddeo, who died at 37, were exhibited here at Sotheby's and sold at auction for \$1,524,000. Affectionate as his memorabilia appears, the brothers had their differences, and the 100 drawings in the exhibition *Renaissance into*

Jean-Baptiste Greuze's *Aegina Visited by Jupiter*

Baroque Italian Master Drawings by the Zuccari, 1560-1600 trace their individual development and points of collaboration in a smooth arrangement that illuminates fine and important details.

Organised by E. James Mundy, chief curator of the Milwaukee Art Museum, and entirely from North American collections, the drawings look at home on the paneled walls of this Fifth Avenue mansion, not very different in spirit from the palazzos in Rome where the brothers worked on facade frescoes and interior decorations. Compared to the finished works, reproduced in the catalogue, from places like the Mattei Chapel or the Villa Farnese, Caprarola, the drawings seem fuller, filled with real space and the energy of potential movement as ideas in process that have miraculously survived though the painted images may be long gone.

Like Michelangelo, Taddeo, who worked only in Rome, drew with a sense of sculptured form and with a strong sense of line, as Mr Mundy points out, that makes the figures, often set in a frieze formation, appear like sculpted

wire. In *Scene from Roman History*, a wash drawing highlighted in white, the triumphant Roman soldiers are distorted in the space to compensate for the viewer at street level, and the central figure, the soldier holding the reins of a horse, can also be seen in a study drawing of a standing nude man. Not a morsel of paper was ever wasted. One sheet of *Julius III Restoring the Duchy of Parma to Ottavio Farnese* - a scene of graceful and airy architecture includes two more studies for frescoes at the Farnese Villa on the other side.

Federico, who at first took over his brother's commissions, developed during his long career into a more cosmopolitan and well travelled artist, with a style that included genre studies of a woman putting on stockings, portraits and allegorical compositions, like the drawing of Minerva triumphant that was considered slanderous by the church. Drawings at every stage, with study drawings placed nearby, force the viewer to assess the Zuccari's work as a process of both evolution and mutation, as Mr Mundy suggests, as Rome in the throes of the

Counter Reformation moved into the Baroque Age.

Drawings are also compared to paintings in an exhibition of 35 works called *Jean-Baptiste Greuze: French Painting in the Mid-18th Century* from the Metropolitan Museum of Art's permanent collection, which continues to May 6. There is so much to learn from understanding a few examples and why a museum has collected those specific ones. Here also an issue of the museum's quarterly bulletin on Greuze, written by James Thompson, further illuminates the selection, quoting liberally from Diderot and the Goncourt brothers, Greuze's contemporary critics.

Like Rousseau, Greuze strove for the natural as opposed to Chardin who paid attention to the voluptuous only in still lifes of food. Though Greuze travelled to Italy and lived in Paris, his sensibilities were never far from the small town of his birth near Lyon and the moral domestic scenes that frequently symbolised lost chastity, like *The Broken Eggs* where the eggs tell the whole story. Greuze was a passionate

man with an angry wife, and the women he painted were in various stages of undress with folds of layered material as sensual as the skin. When he finally did paint a complete female nude, *Aegina Visited by Jupiter*, she appears more chaste than any of the kitchen maids.

Though hard to imagine, it was only some 20 years ago that collectors found in photographs a gold mine of images as satisfying as paintings for their walls. The Museum of Modern Art, whose Department of Photography pioneered this new interest, even sold excess photographs from their own collection. Since then, hardly a year has gone by without an exhibition at MoMA that formulated a new way to look at photographs either through a group show or through the lens of a single photographer.

And this anniversary year - 150 years of photography - is no exception. "Photography Until Now" (until May 29), organised by John Szarkowski, is a history of photography with a difference. He follows what he terms the "dynamic interaction" between techno-

logical advances and creative genius tempered by social attitudes.

One way to view the exhibition is to observe how differently photographers have used any technique. The photographers range from the austerity of David Octavius Hill and Robert Adamson's *East Gable of the Cathedral and St. Rule's Tower, St Andrews, Scotland* (c. 1844) to a more socially oriented 1930s photograph of a factory in Essen and finally to Hilla and Bernhard Becher's water towers cum pure sculpture in 1920.

No photographs can excel the poetry of how three American photographers - Alfred Stieglitz, Edward Steichen and Alvin Langborn Coburn - viewed New York City's Flatiron Building at dusk in the early 1900s.

One exhibit that has been attracting crowds on these unusually warm days is *The Gardens of Fletcher Steele* at the PaineWebber Art Gallery in the lobby of an office building. Currently this is a popular kind of exhibition, recreating with drawings, photographs and actual garden structures, the entire career of those landscape architects working in what is now known as the Country Place Era in America between 1930 and 1939. Steele himself was a transitional figure bridging 19th-century Beaux Arts and modern design in gardens.

He created what he called dreamscapes for his wealthy clients and left behind axial principles for a more romantic idealisation of nature, according to Robin Karson who has written the definitive book on his work, *Fletcher Steele, Landscape Architect* (Abrams/Saga Press).

The image that people flock to see is at Naumkeag, an estate in Stockbridge, Mass: his 1938 *Blue Steps*, a steep series of horseshoe stairs, with curving hand rails of white pipe, set in a grove of birch trees. Closed for a few weeks, this exhibition will reopen on May 8 at the Glyndor Gallery at Wave Hill, the only intact private estate remaining in New York City, where the gardens and husky with romantic longing the next - purled forth in

Obituary

Greta Garbo

The death of Greta Garbo ends a film career unlike any other. On the Jacob's ladder of cinema, on which those man-made angels called stars ascend and descend, Garbo seemed to travel in one direction only: upwards. Her career never took a downward turn, at least until the minor setback of her last movie *Two-faced Woman*. Nor did her life. Unlike many superstars, undone by drink or drugs, or made mortal by multiple marriages, Garbo left movies an untarnished myth, to retire into her own private aether; aloof, apart and famously "alone."

It seems impertinent to remind ourselves that she was born to a peasant labourer in Sweden, in 1905; and that early photographs of Greta Gustafsson (the Garbo was invented later) show her as a buxom beauty who would not be out of place throwing a beach ball in a travel poster. Even her early Swedish and European roles (in Mauritz Stiller's *The Story of Gosta Berling* or G.W. Pabst's *Joyless Street*), though hinting at the tragic heroines to come, could not disguise that this was a big girl who could also seem awkward and mannish.

But once in Hollywood, the movie industry went to work: that merciless machine for reshaping personalities to suit box-office demand.

Brought over to America in 1924, in company with her director-mentor Stiller, Garbo served a brief statutory apprenticeship of hanging around waiting for films. And then she began to slip into star roles: playing temptresses or tragic lovers in movies like *Flesh and The Devil or Love* (her first go at Tolstoy's Anna Karenina).

But the true Garbo was born with the sound era. While dozens of silent stars fell around her, cut down by the deadly scythe of vocal exposure (including her co-star and rumoured lover John Gilbert), Garbo's sound career was made with her first speaking line, "Gimme a visky," came the low mellifluous croak in *Anna Christie*: "and don't be stingy, baby."

Soon the same voice - that contralto that could be imperiously brusque one moment and husky with romantic longing the next - purled forth in



Greta Garbo

Mata Hari and *Grand Hotel*: intoned the agonies of love in *Queen Christina* and *Anna Karenina*: coughed its heart out, and broke the audience's, in *Camille* and even lent itself to improbable hilarity ("Garbo laughs") in *Viva Villa!*

The more the Garbo magic marched on through the 1930s, the less she seemed to resemble any other star. Even Dietrich, when not shimmering like a ice-goddess for Von Sternberg, was happy to slum it by lending her sex appeal to Westerners or potboiling thrillers.

But Garbo, it became apparent, was above sex appeal. She turned the potential disadvantage of an tall, angular body into an advantage. She became a goddess bowing down to mankind as if out of the frame of a pre-Raphaelite painting. Her face - even in the tragic extremes of a death scene or a lover's renunciation - could take on a wry, mocking sadness as if to say, "What fools these mortals be."

In 1941 she retired from mortality altogether: at least from the kind of mortality operating in Hollywood. For the last 50 years of her life, with astonishing single-minded self-abnegation (even Dietrich came back for a late, near-fatal old-age cameo in *Just a Gigolo*), she refused all movie offers. But the Garbo myth fed on unavailability. The lady was not for returning, but her films came back again and again. They will doubtless go on doing so as long as cinema and romance are inseparable.

Nigel Andrews

Carmina Quartet

WIGMORE HALL

Any chamber group that secures the services of Mitsuko Uchida gains the most exhilarating of partners. It is hard to imagine a pianist more likely to commit his or herself fullheartedly to the collective cause, more capable of inspiring through example. On Saturday she joined the young Carmina Quartet and a jam-packed Wigmore Hall for Schumann's Piano Quintet; it proved to be no hastily assembled ad hoc performance, but one worked through with subtlety and perception and charged with finely targeted energy from first bar to last.

The Carmina are not short of good ideas, but the dominant voice here predictably was Uchida's. It's a work in which the piano shares the thematic spoils democratically with its partners, but whether shaping the first movement's second theme with Basso continuo, providing a calming undertow to the sombre march of the second, or launching the final, exhilarating fugato with unbounded energy, it was her

instincts that caught the imagination, and provided the string players with the platform on which to shape their contributions with distinction. Yet it was not until the Quintet that the Carmina revealed their full potential. This Swiss-American group has garnered considerable praise since their joint second place in the first Paolo Borciani Quartet Competition in 1987. But the first half of this Wigmore programme was marred by some bouts of sour intonation, some hastily swallowed phrases and an uncertain start to Haydn's G major Quartet Op.76 no.1. Even so all that seems so special about their approach to string-quartet playing - the ravishing exactness of their chording and inner detail, the individual expressiveness that is not subsumed by corporate identity, the instinctive give-and-take of their phrasing - survived nevertheless.

Andrew Clements

Me and My Friend

SOHO POLY

The winner of the 1988 Verity Bergate Award, in full production for the first time at Soho Poly, refines on one of the genres for which the latter part of the past decade will be remembered, at least in fringe history: the drama of disability. Where Lucy Gannon, a mental health worker turned dramatist, has trodden, hospice bursar Gillian Plowman now follows with a three-part comedy of care in the community. Or lack of it, as the case usually is.

The clever thing about this triptych is that the "issues" are not actually debated at all; they simply hang in the air like a great unarticulated question mark defining the loneliness of the two pairs of long-stay patients who have been discharged from their protective hospital wards to neighbouring flats, with the instructions to "plan ahead" and be self-sufficient.

For the two men, who live downstairs, planning ahead consists of leafing through newspapers looking for jobs



Nicola Redmond (left) and Sonia Ritter

they will never get; for the women upstairs, it is invested in a pyramid of coke-cans with which they hope to buy themselves the first of many holidays abroad. Self-sufficiency is a subtle concept which grows through the companionship of the two pairs: Joosie and playfully competitive in the case of Oz and Bunny, whose first

scene - somewhat melodramatically culminating in a suicide attempt by Steve Swinscoe's mercurial Bunny - is the weakest of the three; a bossy protectiveness between Julia and Robin, the shades of which are beautifully drawn by Nicola Redmond and Sonia Ritter.

An awareness of each for each is established through the

lovable Oz's parcel fixation: Tim Stern's delivery during the first section of a tenderly wrapped scarlet dress that once belonged to Oz's mother is picked up in the second, when its unexplained arrival throws the women back on their past lives and loves. Julia worked briefly as a prostitute, while Robin's breakdown was marked, we learn with a frisson, by the suffocation of her only child. It is in the finely acted final scene that Plowman draws all these strands into a black comedy of inadequacy, as the two pairs meet for a party in which social niceties are turned on their head, first humorously then menacingly, as high spirits - denied the protection of "normal" behavioural structures - get disastrously and predictably out of hand.

Deborah Paige's direction, on a set by Lucy Weller, is finely attuned to the neurotic comedy of a cunningly structured play.

Claire Armitstead

Light Opera

in New York

Operetta can be good fare for students, teaching them how to put a number across. Flagstad sang largely operetta - and revues - for the first two decades of her career. Both the Mannes and the Manhattan schools turned to light opera for their past lives and loves. Julia worked briefly as a prostitute, while Robin's breakdown was marked, we learn with a frisson, by the suffocation of her only child. It is in the finely acted final scene that Plowman draws all these strands into a black comedy of inadequacy, as the two pairs meet for a party in which social niceties are turned on their head, first humorously then menacingly, as high spirits - denied the protection of "normal" behavioural structures - get disastrously and predictably out of hand.

The Mannes production - given in Robert Hess's English translation - was lively but was blighted by a common American curse: young singers pushing their voices too hard.

Two tenors escaped it: Rodrick Dixon, as the romantic lead (if all goes well we should be hearing much more of him, since his voice flows with winning ease) and Dario Tenenoff, who was amusing and incisive in a tenor role. Karen Ann Orlando was a pretty heroine. Paul Echols, conducting, flailed through a score that needs but fingertip control.

The Manhattan School did Emmerich Kalman's *Counsellor Mariza*; Kalman is something of a cult composer here.

The score is a captivating sequence of waltzes, carols, fox-trots, and shimmies orchestrated and counter pointed by a master.

The Manhattan Symphony, conducted by Kurt Klipstatter played it with proficiency and grace.

Andrew Porter

Masur appointment

The conductors of three leading American orchestras have announced that they will not be seeking renewal of their current contracts: Zubin Mehta with the New York Philharmonic; Georg Solti, with the Chicago Symphony; and Riccardo Muti with the Philadelphia Orchestra. Ever since Mehta's announcement was made, late in 1988, there has been much speculation about who would succeed him in the difficult New York post. We heard, unofficially, of famous conductors who were unofficially approached but were uninterested.

Eventually the three names being most widely canvassed were Charles Dutoit, Kurt Masur, and Leonard Slatkin. Other names bandied had been Abbado (before the Berlin Philharmonic asked for him) and Sinopoli. Michael Tilson Thomas was the favourite of those who wanted to see an adventurous American in the post. Speculation was ended last week with the appointment of Kurt Masur.

The core of the Philharmonic activity is a 24-week subscription season in Avery Fisher Hall. Mehta leaves at the end of the 1990-91, after a 13-year tenure, the longest in recent Philharmonic history. Masur is director-designate in 1991-92 and will conduct two subscription weeks. In 1992 and 1993, the 150th-anniversary season, he begins a five-year appointment as music director, conducting at least 14 subscription weeks and four more of "other activities."

Masur was born in 1927. Since 1970 he has been conductor of the Leipzig Gewandhaus Orchestra; previous posts were with the Dresden Philharmonic and the Berlin Komische Oper. He is well known in America as in London (where he is principal guest conductor of the LPO); he has brought the Gewandhaus here on several tours (the first in 1974) and has conducted all the main American orchestras.

His Philharmonic debut was in 1981, and he has conducted the orchestra several times since. The Philharmonic is not self-governing, but six members of the orchestra were (for the first time) actively involved in the search for their new conductor.

Dawn Riggs, viola, and orchestra "chairperson," said Masur was "a leader of unimpeachable moral and musical integrity," with whom the players could co-operate.

This is a strong sound, if in some ways conservative appointment. Dutoit is flashier; Slatkin at St Louis has championed the populist school of contemporary American composers; Masur is best known in what might be called the "Mozart to Mahler" repertoire. That is probably right for the conservative Philharmonic audience. With Masur in charge, we can look forward to hearing the basic, essential repertoire rendered with "moral and musical integrity."

Andrew Porter

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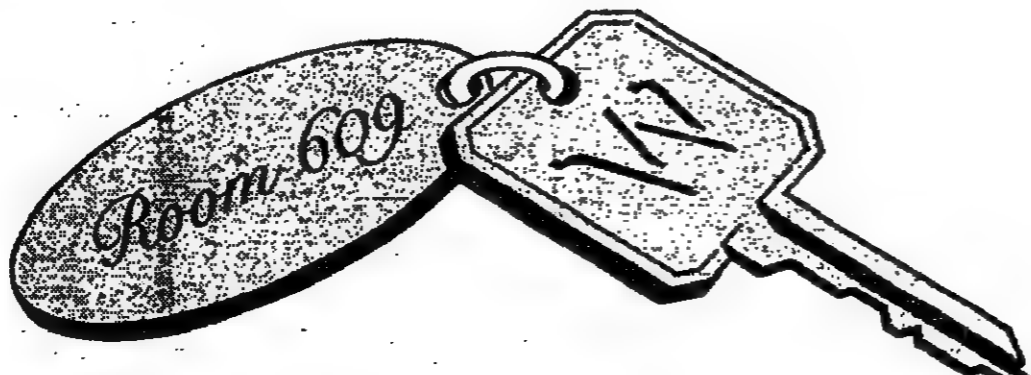
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Breaking the phone cartel

In the past decade, the world telecommunications industry has undergone a technological revolution which has made possible a flood of innovative, low-cost services. Yet consumers worldwide are being denied many of the benefits by an anachronistic producer cartel whose extortionate pricing practices are impeding efficiency and distorting the international allocation of economic resources.

Though a number of countries, notably the US, Britain and Japan, have deregulated domestic telecommunications services in recent years, liberalisation has stopped at their national frontiers. Competition on international calls remains almost non-existent, enabling the world's telephone companies to collude in keeping prices at levels which do not reflect the substantial fall in their own costs. This has resulted in international tariffs averaging three times costs, and the extent of over-charging is estimated at \$10bn a year.

These arrangements are defended by telephone companies on the grounds that they need high margins on international calls to subsidise their unprofitable local networks and national postal services. This argument is flawed. Such subsidies may well be socially desirable. But that determination should be a matter for public policy, not the result of arbitrary decisions taken by monopoly suppliers behind closed doors.

Tax on business

The current cross-subsidy is, in effect, a tax on the business users which are the main source of international calls. It falls particularly heavily on service industries, such as international banks and brokerage houses, which depend heavily on sophisticated telecommunications to link their worldwide operations. But the impact will also be felt increasingly by manufacturing companies, as they press ahead with the installation of electronic networks to tie together foreign plants and customer and supplier networks.

The European Commission and regulators in the US and Britain have all launched investigations into international telecommunications pri-

cing. However, efforts to unravel the cartel face several hurdles, which underline the lack of effective international coordination in telecommunications policy.

Competition powers

The Commission's attempts to apply its competition powers to telecommunications in the past have proven politically controversial. Its scope for action may also be limited by its decision so far to exclude voice telephony from its plans to deregulate EC telecommunications services. None the less, it is possible that Brussels will conclude that the international accounting system violates the Rome Treaty's anti-cartel provisions.

A further problem is the web of bilateral and multilateral agreements which telephone companies have woven over the years. This makes it impossible for one country to introduce competition on international circuits if others refuse to reciprocate. Given the hesitant approach still taken by many governments even to deregulation of domestic telecommunications services, any proposal for negotiated, multi-lateral liberalisation of international calls would be unlikely to succeed.

The best hope for speedy change may lie in bilateral action by governments strongly committed to competition in telecommunications. The US and Britain share such a commitment, and the transatlantic links between them are among the closest in the world. It should be in both countries' interests to abolish price-fixing on bilateral routes and to license new entrants to compete on them. Freer competition would benefit their own economies and, in time, put pressure on other countries to follow their lead.

All the evidence suggests that the spread of competition would benefit service providers as well as their customers. Many studies have concluded that any revenue lost by cutting prices on international routes would be more than offset by higher traffic volumes.

The European Commission and regulators in the US and Britain have all launched investigations into international telecommunications pri-

Reducing the drug demand

BEING SO unwieldy, big international conferences can at best only set agendas for policy-makers. Given these limitations, last week's world ministerial drugs summit in London was a useful exercise.

The summit marked a long overdue shift away from the top-down emphasis on curbing the supply of illicit drugs. It recognised, instead, that equal attention has to be devoted to tackling demand. Previously, the heavy focus on curbing drug supply, a policy championed by the US, obscured the responsibility of the developed countries for tackling demand, while needlessly antagonising developing country producers.

Unfortunately, in a conference devoted in good measure to dealing with the demand for drugs, there was a notable absence of hard statistics. The number of heroin addicts is reasonably well estimated in both the US and Europe, and in developing countries, like Pakistan. But the number of users and the total amount of heroin consumed is only a guess, as it is with cocaine. Consumption in Europe and the US has been mainly measured by the amount of the drug seized. There is a baffling gap between what is thought to be produced, on the one hand, and what is seized and allegedly consumed, on the other.

Even from the incomplete data, it is clear that measures to prevent drug production and intercept supplies are failing to prevent an increasing tonnage from reaching the international market. The successes claimed by the US in combating cocaine demand relate to a levelling among high school students. Increased consumption in the decayed inner cities more than off-sets such gains.

Sharpened debate

This trend sharpens the debate over the policies best suited to tackling demand for drugs. Last week's summit showed a clear international consensus that demand can best be reduced by a three-pronged initiative: research, prevention and treatment, all underpinned by a more responsible climate towards drugs use. Within this consensus, however, there remains a profound philosophical disagree-

ment. The demand reduction policy that is most loudly emphasised comes, not surprisingly, from the US, which has the biggest drugs market and spends much more than anyone else on combatting drugs. The Bush Administration puts a policy of prevention, which emphasises criminalisation and punishment, above research and treatment. Particular importance is given to deterring casual users by making them "accountable" - not only through prison but through loss of driving licences and jobs. In the work place "accountability" is leading to the increasingly common practice of urine testing.

Social control

In contrast, the Dutch believe that drug use is not primarily a problem for the police and the courts, but a matter of health and social welfare. They have opted for a policy of social control. While maintaining the illegality of drugs, they treat the temptation of drugs pragmatically and seek to reduce the risks involved for the user. They profoundly mistrust the US concept of a "war on drugs" and instead prefer to battle against the deprivation and lack of socio-economic status that are at the root of drug abuse. The Dutch claim to have stabilised their addict population and to have ensured that most users are not marginalised.

The logic of current US policy is a progressive erosion of individual freedom, with no guarantee that the chosen means will even achieve the desired ends. Tough prohibition policies have never worked in the past.

Even if one were tempted by the repressive approach, it would be questionable whether the US, with its wealth, massive inner city problems and complex ethnic mix, can be a proper role model for other nations. Some may argue that the Netherlands is too small and too cohesive a country to provide a satisfactory model either. But the Dutch approach has at least limited the criminal activity elsewhere associated with drug abuse. It deserves careful study, especially within Europe.

Colina MacDougall reports on China one year after the protests began

These are tense times for the old men who lead China. One year after the start of the wave of student-led protests that culminated in the June massacre in Peking's Tiananmen square, the consequences are continuing to haunt them.

And if China's leaders wanted to bury the memory of the events themselves, a series of emotive anniversaries has just begun that will ensure they can not.

Many Chinese remain resentful, the army looks less than united, and the minorities are restless. Alarming for China's ancient leaders, world communism is on the wane. Even the people of neighbouring Nepal, which adjoins the sensitive Chinese province of Tibet, are demanding multi-party democracy.

The economy is close to paralysis. Unemployment, wage cuts and a drop in the standard of living for urban workers have increased the leadership's unpopularity. The cautious policies announced at the National People's Congress, the annual parliamentary session which finished its deliberations at the beginning of this month, seem unlikely to improve matters.

The going has been made more difficult by the continued application of sanctions by western governments. Straight after the Tiananmen massacre, the US, Europe and Japan froze government loans, the sale of military technology and high-level exchanges. With governments increasingly aware that China's instability reduces its value as a market, that it no longer has value as a counterbalance to Moscow, and that its human rights record is appalling, there is no great pressure to remove them.

While the sanctions have frayed slightly at the edges - a few loans have gone ahead and President George Bush, convinced of his skill as a China-watcher, twice dispatched his National Security Adviser, Mr Brent Scowcroft, to Peking to maintain contacts - China is still unable to continue its programme of importing technology for lack of cheap foreign credit. Important infrastructure developments are on hold because of the freeze on most world bank money.

Against this background, the leadership is keeping a tight clamp on the capital as the anniversaries of last year's events approach. Sunday was the first. It was the anniversary of the death of Hu Yaobang, the reformist party leader who was sacked in 1987 and whose name figured prominently in the student demonstrations that subsequently erupted in the capital. A lone protester who attempted to lay a wreath in memory of "the heroes who died for democracy and liberty" was seized instantly and led away by police.

Still to come are the anniversaries of Hu's funeral on April 22, of the big Peking marches through April and May last year, and the start of the students' hunger strike on May 13 which brought most of Peking's citizens out on the streets, of the imposition of martial law on May 20 and of the shooting on June 3 and 4.

Small wonder that the authorities have posted enough extra troops to Peking to bring their numbers up virtually to the level of the 1989 Tiananmen protests.

A particularly tricky hurdle for today's leaders will be May 4, usually marked with official celebrations because it commemorates patriotic student demonstrations in 1919 which led to growing restlessness throughout the 1920s. Some of today's communist elders took part, so it cannot be ignored.

Faced with a continuing groundswell of popular discontent, the conservative leadership that swept to power during the protests last year has been rooted to the spot. The recently-ended party Congress was

The ghosts of Tiananmen



Pro-democracy protesters (left) in Peking a few days before the army moved in. Right - the confrontation

the most difficult for years. Changes in the leadership, much rumoured in advance, did not materialise - and the conservatives appeared to be riding high.

Rumours that the deeply unpopular president, Yang Shangkun, would be kicked upstairs to a post more suited to his age (82) proved premature, as did similar stories that Li Peng, the prime minister who masterminded last year's official violence, would go to a less prominent job.

Resentment is high, the army looks less than united, the minorities are restless, and the economy is paralysed.

The tougher post-Tiananmen version of Hong Kong's Basic Law, its post-1997 constitution, was passed, incorporating a clause outlawing all "subversion" (a blanket ban Hong Kong fears could be used to muzzle even the faintest criticism of Peking). It also confirmed that only a third of the territory's Legislative Council - not enough to provide any sort of democracy - would be elected by 1997, the year it reverts to China.

Deng Xiaoping, the 83-year-old paramount leader who initiated China's reform 12 years ago, retired from his last formal post as chairman of the government's Central Military Commission (he was replaced by Jiang Zemin, the uncharismatic party boss

who wields little real power over the military).

Deng remains senior leader, but his degree of influence is now arguable. He extracted no similar concession from the equally elderly (but much fitter) President Yang Shangkun, who grabbed many of the reins of power and boosted his family's position in the crisis last year.

One look at current economic policy is enough to confirm the ascendancy of the conservatives. Economic reform was in any case put on hold in 1988, when rampant inflation prompted the leadership to change tack and clamp down on private enterprise. After the bloodshed of last year, reform was frozen altogether. The economy now appears locked into the "austerity policy" of the last two years, with just a few concessions to industries desperate because of cash shortages.

The freeze on such ground-breaking liberalisation moves as the sale of shares in state enterprises to private citizens remains in force. Li Peng, in his key report to the Congress, emphasised centralisation, subsidies and priority for large, state-run projects. Private enterprise, which in the early and mid-1980s gave a whole new dimension to the economy, is being cut back to a minor role.

The consequences of the austerity policy, even in its slightly amended form from 1989, is to be injected into the economy to relieve credit bottlenecks are likely to be more of the same: unemployment, low output and a falling standard of living. The unemployment problem is par-

ticularly acute in the countryside. As small industries in the towns have closed down as a result of the credit squeeze, workers have been told to return to their villages, which are no longer able to support the extra bodies.

In recent months, the credit squeeze has closed some 2m small enterprises and the rural labour surplus has risen to around 100m. Other plants, unable to pay for raw materials or sell their output, now shut for a few days a week. Pay packets have shrunk as enterprises can no longer afford bonuses. Government bonds are sold by forcibly deducting cash from wages. The value of stockpiled products nearly doubled last year, locking in an extra yuan 50bn.

To be sure, Peking has improved its trade balance (imports fell sharply in the first quarter this year, giving the country a surplus of \$1.6 bn compared with a deficit of \$1.2 bn in the same period last year). But even a modest reduction could halt this trend. China needs to post a sizeable trade surplus this year in view of the peak in payments on its \$40bn foreign debt expected in the next couple of years.

On top of all these problems, Chi-

na's hard-line leadership has failed to seize the opportunity of last year's slowdown to carry out structural changes such as price reform. No-one disputes that even in the present circumstances Peking could kick-start the economy if it chose to. But without reforms it will continue to lurch from crisis to crisis. Now it may be too late, and no benefit will accrue from several years of belt-tightening.

Nothing may change until the now-trial Deng finally departs from the scene. Chinese refer wryly to present leaders as a "New Gang of Four," seeing a replay of the events of 1976 when the Peking bosses of the time plotted and counter-plotted as Mao Zedong, the communist founding father, lay dying. When he was safely buried, the generals, who had previously supported the status quo, changed sides, arrested the Gang of Four, and set China on the path to reform.

It is a moot point whether history will repeat itself. The New Gang gave the army a substantial bribe at the Congress to ensure its continuing support, in the form of a 15 per cent increase in their allocation under this year's budget. This contrasts noticeably with the long freeze that Zhao Ziyang, the dismissed party leader, imposed on funds for the military when he was prime minister.

The bribe was probably needed. The army has been seriously divided since it was used as a brutal police force last June. The injection of money may go some way towards satisfying the younger professional element in the military.

Younger officers wanted to stay out of politics, modernise the military and end the nepotism of President Yang Shangkun and his brother, Yang Baibing.

The Peking leadership clearly does not wholly trust the army. The People's Armed Police, the paramilitary force responsible for internal security and much in evidence in the capital, saw a big reshuffle of its commanders in February and may have been brought under closer control by the Central Military Commission, which is the power-base of the Yang family. Stiff political re-education campaigns have been introduced. For the other ranks there is the childish but omnipresent "Learn from Lei Feng" movement (Lei Feng was a 1960s-style exemplar of unquestioning loyalty). The army's political department has been urging the study of Marxism with particular reference to what Peking calls the "struggle against peaceful evolution and bourgeois liberalisation."

Since the Congress ended, the importance of the army's role has again been underlined. Earlier this month, in the wake of Soviet riots in the Moslem republics of Azerbaijan and Kazakhstan earlier this year, Chinese troops had to be flown to Kashgar to put down riots by Moslems protesting against prohibitions on building mosques.

These riots are unlikely to presage an independence movement since China's Moslems lack an effective leader. Nevertheless they are a serious problem for a leadership already besieged by a sea of troubles, many of which, like the general hostility it has encountered and the mismanagement of the economy, are of its own making.

But Peking's elders are unlikely to do more than screw down the clamps on unrest. After 41 years in power, they want only to avoid the fate of the Ceausescus, an attitude not conducive to creative thinking. If force is needed to keep the capital quiet during the coming anniversary season, they will not hesitate to use it. The sharpest question in their minds must be: will the army stay loyal? They are doing their utmost to ensure that the answer is yes.

Guinness rolls on

When the Guinness trial finally began in February, it was widely described as the City trial of the century.

I personally think that the Royal Mail case, which caused Lord Kylsant to be sent away in 1931 for issuing a false prospectus, will take a lot of beating. But with nine weeks of the trial now gone, I decided to see how things were settling down in the court where former Guinness chief, Ernest Saunders, and his fellow defendants confront the majesty of the law in the first of the two trials.

They face charges relating to an allegedly unlawful share support operation mounted during Guinness's bitter takeover battle in 1986 with Argyle for Distillers.

The first shock was purely aesthetic. Whoever designed Southwark Crown Court looks to have had a massive power station in mind before succumbing to a late change of heart.

The second surprise was the informality of the proceedings. When I walked into the courtroom, Ernest Saunders rushed up to shake my hand and introduce me to his son James, whose book on his father's tribulations is now doing rather nicely in paperback.

I had met Saunders only once before, in a television studio at the height of the bid battle. He was, I recall, greatly irked by questions about the degree of help Guinness then enjoyed from Bain, the secretive management consulting firm which lent Guinness the services of finance director Olivier Roux. Perhaps I had unconsciously expected to see him in a ball and chain. For whatever reason, the warmth of the welcome was unexpected, as was the general atmosphere.

Court Two at Southwark, presided over by the business-like Mr Justice Henry, is nothing like the Old Bailey. There

OBSERVER

is, admittedly, an army of bewigged lawyers. But they sit at tables that look as though they might have been borrowed from a primary school.

The three other defendants - Gerald Bonson of Heron group, Anthony Parnes, the former stockbroker who spent six months on remand in a California jail before returning to Britain, and financier Sir Jack Lyons - are allowed time off from court when their presences confront the majesty of the law in the first of the two trials.

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"He takes egg hunting very seriously."

Saunders' personal assistant, Lucy Bayliss, his junior secretary, who believed she saw the diary after the supposed date of destruction.

That undermined one of the problems caused by the long delay in starting the trial, Ivan Boesky, the American insider dealer who provided the British Department of Trade with information about the share support operation, has served a prison sentence and is now free again. Yet the witnesses in the Guinness case are still searching their memories to recall what happened in 1986.

The drama is low-key. But there have been plenty of high lights since February. Among the more notable was the admission by key prosecution witness, Olivier Roux, that he had lied to the DTI inspectors. Then there was the unimpressive performance of Lord Ives, scion of the Guinness family, whose lapse of memory was accompanied by details of a drink problem.

Details of Sir Jack Lyons' direct lobbying of the Prime Minister on Guinness's behalf

raised eyebrows in and out of court. So, too, did evidence from Dr Horst Tiefenbacher, former London manager of Zentralbank and Kommunal Bank. In what may prove to be one of the more damaging assertions of the trial, he alleged that Lyons had suggested he invoice Guinness for the amount of his bank's losses on the sale of Guinness shares under the description "consultancy fees" - despite the bank having performed no consultancy services.

Fourth estate

The press corps is down to about half a dozen from the 25-30 who attended at the outset. Last week the gathering ranged from the Sun - chief angle, how are the mighty fallen - to the Morning Advertiser, which caters to the licensed victualling trade.

Saunders, who earlier sought a ban on press reporting, chats freely with the journalists in the coffee break. Their collective view is that the prosecution has yet to drive a coach and four through his defences.

As with the Royal Mail case, much of the interest centres on the role of City advisers. In the 1980s Harold Morland of Price Waterhouse was acquitted of charges of false accounting, largely thanks to the admission by an expert witness not unrelated to the present writer about the acceptability of reserve accounting.

In this instance it is Roger Seelig, one-time star at Morgan Grenfell, Lord Spens, formerly of Henry Ansbacher, and David Mayhew, still of Cazenove, who are down to appear in the second trial. Sobering for the City at a time of jail riots around the country. As one corporate financier put it recently, the small print in formal documents was always a bother. Now it's a bother that can put you in the dock.

John Plender

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The mood among insolvency experts around Britain is buoyant. Business is better than it has been since the mid-1980s, but the rate of corporate mortality has not yet reached a level where the professionals feel obliged to hide the improvement in their business behind an undercurrent of gloomy exterior.

The number of receiverships so far this year – double that of the first quarter of 1989 – suggests a leap in corporate failure comparable to that of the bad years of the early 1980s, or the recession of 1974. But comparisons would be wrong for two reasons.

First, the number of companies being formed rose sharply during the 1980s. Last year, 120,000 new companies were set up. The number of traders registered for VAT grew by around 70,000.

Given that many new companies fail in their early years, there are now more businesses to go bust than in previous economic downturns. So it is not surprising to learn that insolvency experts around the country have found a sprinkling of companies from the Thatcher era among those getting into problems of late.

The second important difference is that few large companies have gone to the wall so far. This is partly due to the attitude of bankers. "Larger companies are being supported at the moment," says Mr Michael Jordan of Cork Gully, the UK's largest insolvency firm. Mr Nigel Hamilton, his counterpart at Ernst & Young, adds: "The banks are holding the line as hard as they can. They are supporting a lot of companies they wouldn't have done in the past. How long can they do that?"

The answer depends on what happens to interest rates over the coming months. Insolvency practitioners, who have their finger more firmly on the economic pulse than many, almost all agree that insolvencies will continue at their current level throughout the year if interest rates do not change.

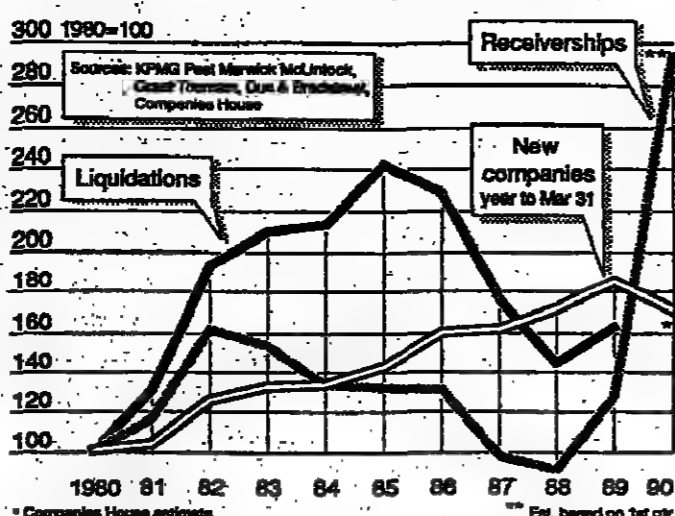
If rates rise, though – or stay high beyond the end of the year – the pain will intensify as the pressure mounts on larger or better run companies.

Even if the banks begin to pull the rug, the immediate social effects are not likely to be as painful as the early 1980s. "Fewer communities are dependent on particular industries or companies," says Mr Hamilton. "Fifteen years ago, if you closed down a couple of mills, say, you could wipe out a town pretty easily. Now it's quite different."

The pain from this "smoke-stack era" is unlikely to be felt

Richard Waters says UK liquidators are doing well

A boom in going bust



again, says Mr Jordan. "A lot of British industry is in very good shape indeed," he adds. This is the overall picture: experience differs greatly around the country, however. Mr Gordon Horsfield, in charge of Price Waterhouse's regional insolvency activities, explains: "Insolvency has been running as a tide, starting in the South. It has now reached the West Midlands, and is nibbling at Yorkshire and Humberside, and the North West."

Most professionals bear witness to this "ripple effect", which has seen corporate failures spread out from London and the South. Most also agree that two industries in particular have suffered from high interest rates – property and retailing – while the suppliers to these industries are beginning to feel the draught as well.

In the region around Southampton, the increase in insolvencies has been at one of the highest levels. Mr Peter Padmore, who runs Price Waterhouse's insolvency work in the region, says he has 25 staff working in the area, compared to seven a year ago. "We have been borrowing people from our Scottish and North East offices, because they aren't experiencing the same level of work," he says. However, the increase in cor-

porate failures has not eaten deep into the local economy. "You could describe it as the froth being blown off the top. There is an underlying buoyancy and resistance," Mr Padmore says.

In London Mr Tim Hayward, in charge of KPMG Peat Marwick's insolvency business in the region, says his staff has grown to 110 from 80 a year ago, with up to 30 more working part-time. Experience around the capital is "very patchy", he says, with "the High Street hit the hardest."

Higher costs due to the new uniform business rate and rent reviews are likely to intensify the pressure on retailers.

The West and South West rank alongside London and central southern England as the areas that have suffered most in recent months. Mr Simon Pomeroy, of Peat Marwick in Bristol, puts this down to the high number of start-ups in the area. The downturn, he says, is "much sharper than the early 1980s, but I doubt it will go as far."

Meanwhile, there appears to be no shortage of local buyers for businesses that get into trouble. Mr Ryan Densham, of Price Waterhouse in Bristol, says he is "surprised and delighted" that there are "plenty of 'white knights' ready to take on an ailing busi-

ness as an opportunity" – a factor which seems stronger here than in some other areas. Leisure developments in the region seem to be suffering, alongside the property and retail industries. According to Mr Richard Neville, of Peat Marwick in Plymouth: "When times were good, people tended to develop more speculative leisure schemes. These suffer first." But centres like Taunton, Plymouth and Truro have seen little of their economic growth of recent years destroyed, he adds.

Further North, meanwhile, insolvencies have only recently begun to grow. Mr Roger Taylor, a Peat Marwick partner based in Sheffield, says his office has increased insolvency staff from five to nine since last summer.

Insolvencies are in all types of industry, and in companies of all ages. Here, as elsewhere, there is one unifying factor: "Management has a lot to do with it," says Mr Taylor. "It's very rare that poor management doesn't contribute to the demise."

The region around Leeds has seen similar upswing in insolvencies since the start of the year. Mr Horsfield of Price Waterhouse points to the property and construction, retail and textile industries. Compared to the recession of the early 1980s, the latest downturn is more of a "short sharp shock" for the region, he says.

By contrast, the North West has been less affected – though a rash of insolvencies in the last two months may intensify. According to Mr Derek Slade of Ernst & Whinney in Manchester: "We were not feeling it at all, and I was hoping we would miss it. But since Christmas, it has been bubbling along."

Scotland, meanwhile, has hardly felt the chill in the business climate at all. "There has been no rush of problems, and banks don't have a great mass of companies that will go wrong in the future," says Mr Alan Jamieson of Price Waterhouse in Edinburgh. Nor does he expect the insolvency "ripple" to reach so far north. "There has not been the froth in the market before that there was in the South East."

This snapshot of the insolvency industry around the country after the first three months of the year suggests a healthy upturn in business for the professionals, though at no great cost to the economic fabric of any of the regions affected. Whether the insolvency profession's gain eventually becomes the country's loss, however, depends almost entirely on what happens to interest rates.

FOREIGN AFFAIRS

Creating a new alliance

German unification means ending the division of Europe, argues Edward Mortimer

The effects would hardly be confined to East Germany.

Mr Gorbachev is therefore condemned to bargain from a position of weakness. But weakness itself, in the hands of a skilled player, can be a useful diplomatic card.

Most Western governments want him to remain in power and will be prepared to make concessions on the German issue if they think it can help him overcome his domestic difficulties.

In some cases, their instinct is to help him less by concessions on substance than by taking things gently: to give him time to bring recalcitrant colleagues around or outmanoeuvre them in the domestic power struggle. But it could equally be argued that the West's interest is to move as quickly as possible so that any

● The role of the united Germany in Nato. Will it remain part of the integrated military command? Indeed, will that command continue to exist or will Nato revert to purely being a "political" mutual defence pact?

● Germany's non-nuclear status and the continued deployment, or not, of nuclear weapons on German territory.

● How many foreign troops will remain in West Germany, and for how long?

● The overall size of German armed forces, possibly in the context of an overall European security arrangement, limiting troop levels throughout the Continent.

When it comes to deciding the Western position on all these issues, the key point will be the attitude of the Germans themselves. One can safely

Either the present members of the Warsaw Pact should be invited to join Nato or, more realistically, Nato should be ready to join them in a new system of collective security

post-Gorbachev regime is confronted with Germany-in-Nato as a fait accompli.

However, some Western concessions are already on offer in the shape of the "Genscher Plan" under which Nato forces will not be deployed in East Germany while Soviet troops are allowed to remain there for a transitional period.

Points upon which the "Two Plus Four" negotiations can be expected to focus include:

● The length of this transitional period, with possible special arrangements for Soviet forces in Berlin and the level of German national, as opposed to Nato, forces that can be deployed;

● A peace treaty or other international instrument defining Germany's frontiers on a permanent *de jure* basis;

assume that the attitude of the two German delegations will be preconcerted. At this point, the issue of Soviet opposition elides into the broader issue of Nato's future and Germany's role in it.

The ultimate arbiter of the negotiations will be German public opinion. On certain issues, such as the de-nuclearisation of German territory, the Soviet Union can be virtually sure of winning German support. That may also apply to the removal of all foreign troops from Germany. West as well as East – after a transitional period which, in turn, would entail a radical rethink of Nato's military structure and Germany's place in it.

Questions will have to be asked such as whether an integrated west European com-

mand, in which France would replace the US, would be more acceptable either to Germans or to Russians than the present Nato one; whether the US would be willing to keep forces in Europe as an ally even though it was not part of such a new integrated command; and whether US forces could sensibly be stationed anywhere else in western Europe if they were removed from Germany.

Above all, the question of new pan-European structures will have to be faced.

Such structures are clearly what Soviet spokesmen have in mind when they talk of Germany being neither neutral nor in Nato, or of it belonging both to Nato and to the Warsaw Pact. They are also now being actively canvassed, in slightly different forms, by both the Polish and the Czechoslovak governments.

West German conservatives speak of Nato as part of, while Social Democrats envisage it being replaced by, "a European peace order," and President Mitterrand's New Year remarks about a "European confederation" presumably point in the same direction. All these proposals take the Conference on Security and Co-operation in Europe (CSCE) as their starting-point.

Even Mrs Thatcher, in her Cambridge speech last month, spoke of making this autumn's CSCE summit "a major step towards the creation of a great alliance for democracy, which would stretch from the Atlantic to the Urals and beyond."

Others have pointed out that to embrace all CSCE member states, it should in fact stretch from Vancouver to Vladivostok. But Mrs Thatcher persistently added that the CSCE could not "in any way take on a defence role," whereas it is precisely in the security field that the division between East and West needs to be overcome.

In London two weeks ago the Czechoslovak foreign minister, after outlining his plan for a Commission on Security in Europe along the lines of the UN Security Council, was asked whether Nato was not a more reliable guarantor of European security.

"There's nothing wrong with Nato," he replied, "except that we don't belong to it." In substance the Russians are saying much the same.

If the West genuinely wants to overcome the division of Germany, it must also overcome the division of Europe. Either the present members of the Warsaw Pact should be invited to join Nato or, more realistically, Nato should be ready to join them in a new system of collective security.

LETTERS

History: too important to be left to the staff room

From Mr Andrew Sholler.

Sir, In attacking the Government for its displacement of the working party's recommendations for history-teaching within the National Curriculum, Michael Prowse ("Leaving it to the History Man," April 11) manages to condense an enormous amount of glib, liberal nonsense into very few sentences.

Supposedly, "existing flaws" include "the tendency to regard Britain as the centre of the universe and to play down the importance of social and economic history." Besides doubting that as a matter of fact, is it not obvious that, since nowhere else is the centre of the universe either, pupils should learn about their own country first? As not everything that there is to know can be taught, it is simply a matter of logical priorities.

Social and economic history, meanwhile, tends to be euphemism for the handing

down of a liberal (biased) interpretation of the past. The effect of a generation of children "educated" (in the Russian sense of the word) by readers of the Guardian is only too pitifully obvious.

Many young people know how to be argumentative shamelessly and without humility, how to repeat socialist nostrums about the Third World and such like, but many seem to have the factual basis to contribute anything worthwhile to sensible discussion.

Better to parrot dates than to parrot misinformation. We may not want a nation of potential mastermind memorexers, but we certainly do not need any more babbling empty-headed pseudo-intellectuals.

Mr Prowse believes an emphasis on world history is "clearly desirable in what is now a middle-ranking, multi-boxed, but we certainly do not need any more babbling empty-headed pseudo-intellectuals."

Apparently, what the Government intends for the teaching of history amounts to "political interference." This contention may be viewed at two levels. To the extent that the state finances education, it is not "interfering" if it directs the syllabus. He who pays the piper must not be allowed to complain only if parents are not able to place children in schools outside the state sector. Since many are not, on account of prohibitive cost and the lack of alternative, that is the problem to be addressed.

Additionally, if anything is clear it is that the Government is trying to remove political interference, by unscrupulous teachers force-feeding half-baked theories to the classes. Can it really be preferable for them, or examining boards, to be given utterly free rein over the "skills" to be developed and rewarded? What are these teachers anyway if not public sector employees (technically our servants not our masters)? What is taught in history lessons is too important to be left to the inner sanctums of the staff room and educationalists bent on fostering "social awareness" over knowledge. It is vital that precisely what is taught and tested is out in the open for all to see. History must not be allowed to continue to be abused.

Finally, and touchingly, we are told that Bernard Shaw "would have approved" of the working group's designs. That really is not much of a commendation. Andrew Sholler, 125 Conway Gardens, Grays, Essex

mainly not economic, certainly not political, especially not historical. Perhaps the objection refers to an unstated weighted average incorporating geographical size? As for multicultural, that is a (relatively recent) historical issue itself, one which, doubtless, is not to be discussed for its rights and wrongs.

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Corporate PEPs: cost-effective for the individual investor

From Mr Richard Cockman.

Sir, I am already identified a particular equity as being one in which the corporate PEP is then a means by which he can invest extremely cost effectively in that company and thus feel that the company is trying to assist him and therefore be a good company worth investing in.

Of particular concern is that he seems to be losing sight of a fundamental aim of corporate PEPs. This is that such plans

are designed to be attractive to an investor who has already identified a particular equity as being one in which the corporate PEP is then a means by which he can invest extremely cost effectively in that company and thus feel that the company is trying to assist him and therefore be a good company worth investing in.

Of particular concern is that he seems to be losing sight of a fundamental aim of corporate PEPs. This is that such plans

long-term. A lot of companies have already own considerably more than £5,000 worth of shares and thus there is clearly an attraction for them in a corporate PEP.

Moreover, there is no suggestion that anybody is locked-in. Indeed in most corporate PEPs, the participant can liquidate his holding and transfer into

another PEP, be it corporate or managed, at very low cost.

Collectivism can be appropriate, but there is a lot to be said for giving thought to the individual and that is certainly one advantage of the corporate PEP.

Richard Cockman, CC&P, 26/28 Bedford Row, WC1

A positive relationship between productivity and wage increases

From Mr Cliff Pratten.

Sir, Professor Layard (Letters, February 14) makes the following three claims:

If one compares the 54 main branches of industry over the period 1979 to 1986 there is no correlation between the rate of productivity growth and the rate of wage increase.

Huge differences in productivity growth between industries have been mainly due to technological differences and nothing whatever to do with differential work effort.

Employers have rewarded workers for improved working practices. But these improvements have been scattered across industries in a way that was unrelated to overall productivity growth.

Professor Layard refers to the relationship between the

percentage increases in productivity and percentage increases in wages for 54 branches of industry over the period 1979 to 1986 to support his claims. As Professor Layard suggests, there is little correlation between the two variables, but this may be explained by the other factors affecting productivity increases apart from changes in wages and errors in the measurement of the variables.

Professor Layard has not resolved the well-known problem of measuring productivity growth and his measure of wage increases is confused by the timing of large increases in wages in 1979 and 1980, the incidence of strikes and changes in overtime working.

In fact, Professor Layard's data do indicate that there is a

positive relationship between increases in labour productivity and wages.

My best estimate of the relationship which can be only a very approximate indication of the real relationship, can be summarised in the following way. Other things being equal, an industry which increased productivity by 35 per cent between 1979 and 1986 increased real wages by 14 per cent and an industry which increased productivity by 65 per cent increased real wages by 15 per cent. The data do not identify whether faster increases in productivity led to larger increases in wages or vice versa.

Over a period of, say, a century differences in productivity are due to technological differences as Professor Layard

claims. Over the period 1979 to 1986 changes in effort contributed to increases in labour productivity but it is not possible to quantify the contribution of changes in technology and effort and the shock of recession.

The data are consistent with some employers having rewarded workers for improved working practices and effort which were related to overall productivity growth. Differences in the growth of productivity are in part attributable to changes in effort; changes in wages have to reflect changes in effort which is awkward for those seeking the use of pay norms.

Cliff Pratten, Department of Applied Economics, University of Cambridge

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FINANCIAL TIMES

Tuesday April 17 1990

*Not just Number 1
in Plumbing Supply*
WOLSELEY

Japanese strategy to win friends

Barbara Durr in Chicago reports on donations to US universities

WITH the climate for Japanese investment verging on the openly hostile in America, Japanese companies and banks are trying to recast themselves as open-handed good guys instead of landgrabbers.

The Tokai Bank last month gave \$1m to endow a chair at Northwestern University's Kellogg Graduate School of Management near Chicago - a gift that is expected to be part of an estimated \$170m worth of total Japanese philanthropy to US universities this year.

Mr Terry Myers, senior vice president of Tokai Bank in New York, said a basic reason for the gift was for a change of image. "There's so much Japan-bashing going on right now that we're just trying to say 'hey, we're just here to do business'."

Mr Myers also said that Tokai, which already has some executives who are graduates of the Kellogg school, was interested in future recruiting there. The Tokai Bank is Japan's sixth largest in terms of assets.

The importance of Japanese philanthropy in Japan's relations with the United States was underlined recently by a Japanese Government decision to make corporate donations to American schools, hospitals and community organisations tax deductible from April 1. The Japanese Chamber of Commerce is trying to promote such corporate giving by distributing a handbook called "Joining In."

While the pattern of donations may change, many Japanese businesses have had a tendency to prefer high-profile contributions to prestigious universities rather than unknown local charities.

The Kellogg School, ranked the number one business school in the nation last year in a magazine survey, is only the latest among top business schools to enjoy Japanese largesse. Donations to graduate level business schools have taken off during the last decade as Japanese companies sent their personnel to American schools for foreign experience where they searched for US subsidiaries.

Mr Craig Smith, a business consultant in Seattle, Washington who tracks corporate philanthropy, said that Japanese gifts to American universities had been rising at an annual rate of 40 per cent over the last five years. US corporate giving had meanwhile been flat at about \$2bn annually, he said, prompting universities to seek new money from the flush Japanese.

Many Japanese donations go to Japanese studies programmes at undergraduate and graduate levels and they are particularly concentrated in university engineering and science departments.

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Mr Jeffrey Sheehan, Wharton's Associate Dean for International and Institutional Relations, said that the strategy for Japanese companies and banks is to build long term relationships. "For the Japanese such relations are the most important part of a business deal," he said. Name recognition among America's managerial elite is another goal.

Northwestern University Professor Robert Rodrick, who was named by Tokai to the chair, explained that students who take his courses are

likely to remember Tokai. "It's good advertising," he said. Such advertising is also done at other top schools. Harvard University's Business School has \$2.5m in endowments for two chairs by the Industrial Bank of Japan and Konosuke Matsushita, the late chief of Matsushita Electric Industrial.

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city's Graduate School of Business has chair endowed by Mitsubishi for \$1.5m and two other endowments worth \$3m for its Center for Japanese Economy and Business from Sumitomo and a group of four Japanese securities companies.

Whether an improvement in Japan's image and its relations with the US will come from more philanthropy is unclear as yet. Americans may not be as easily bought off as they are bought up.

While not as flashy as the Japanese purchase of New York's landmark Rockefeller Center last year, the recent sale of a minor league baseball club in Birmingham, Alabama touched a raw nerve in local residents. Some have even given up their season tickets. One old timer mused, "I think we won the war and lost the peace."

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King of Nepal asks opposition to form government

By K.K. Sharma
in New Delhi

NEPAL'S King Birendra yesterday invited the opposition alliance of the Nepal Congress and the United Left Front to form an interim government, giving leaders of the democratic reform movement a last victory after a struggle lasting just two months.

The King, one of the world's few absolute monarchs, made his concessions in a royal proclamation he read on radio after a campaign in which some 200 people have died. He expects to be made a constitutional head of state on the British pattern.

The invitation to form an interim government was given to Mr Ganesh Man Singh, 75, head of the Nepal Congress, who is the acknowledged leader of the movement for restoration of a multi-party system and free elections in the Himalayan kingdom.

However, late last night Mr Ganesh Man Singh rejected the offer on the grounds of ill health. He had instead nominated Krishna Prasad Bhattarai, acting president of the Nepal Congress.

The interim government is expected to work out constitutional details and other reforms to introduce democracy after 30 years of "party-less democracy" and autocratic rule by the King.

Through the proclamation, the King has dissolved the National Panchayat (assembly) elected under the partyless system, dismissed the Prime Minister he appointed a fortnight ago and allowed freedom of the people to assemble and take part in peaceful processions.

The main political concessions were made after thousands of people besieged for 15 hours a hall where Mr Lokendra Bahadur Chand, the Prime Minister appointed by the King, held fruitless talks with leaders of the democratic reform movement.

As word went round that the talks - aimed at establishing an interim government to pave the way for democratic reforms - had failed because the Premier had not been given the required mandate by the King, frenzied mobs surrounded the hall in the Royal Nepal Academy.

As they raised slogans demanding the King abdicate, it became clear that the movement was being directed against the monarchy which has traditionally been above criticism.

The siege succeeded in demonstrating to King Birendra that he was directly under threat if he further delayed handing over power.

US plans wide review of banking

By Anthony Harris
in Washington

A US Government review of deposit insurance will consider the entire context of bank power, regulation and supervision, the White House confirmed yesterday.

This followed reports of a speech given by Mr John Robinson, the Treasury under secretary, at a closed meeting of the Independent Bankers' Association, representing smaller regional banks.

He said that national under review included:

● overall structure of the financial sector and its relation to supervision, regulation and insurance;

● possibility of moving to market-value accounting and its relation to capital requirements;

● structure and financing of deposit insurance in an environment of global competition in banking, including possible partial privatisation of the system, the imposition of risk-related insurance premiums, and the roles of Federal, state and private insurance systems.

The Administration is under pressure both from public opinion, which is becoming more strongly aware of the astronomical losses incurred in the insured home loans industry as a result of inadequate supervision in the 1980s, and the banking industry, which is complaining that the official regulators especially from the Comptroller of the Currency, an office of the executive branch are now imposing excessive restrictions.

The review is likely to include yet another attempt to replace the 50-year-old Glass-Steagall Act, which imposes a legal fence between banking and investment activities.

Fixing a price on a pension holiday

A hefty pension fund surplus can be good, bad or boringly neutral for your reported earnings, not to mention your share price. Such is the confusing lesson of SSAP 24, the UK's new accounting standard for pension costs, which has hit the stock market with full force in the 1989 results season. The signs, so far, are that few analysts or investors have thought much, if at all, about its complicated ramifications for valuing equities.

An illustration of SSAP 24's importance is the £171m UK pension fund of the recently demerged Courtaulds Textiles. Thanks to a good investment manager, and a falling pay-roll, the Courtaulds scheme is overfunded to the tune of 170 per cent. SSAP 24 says the surplus can be amortised over the remaining working lives of the workforce. The net effect is to raise taxable profits by \$2m, a chunky 30 per cent of the group's pre-tax earnings for 1989. Not many companies will have seen such a dramatic impact, though STC runs it pretty close, with the £36m uplift SSAP 24 gave it last year. But all this should matter greatly to investment analysts.

Perhaps the stock market should value any extra income flowing from SSAP 24 more generously than the bulk of the company's profits stream. The lift ICI's 1989 earnings received from the new SSAP may be small (a mere £33m), but the conservative assumptions

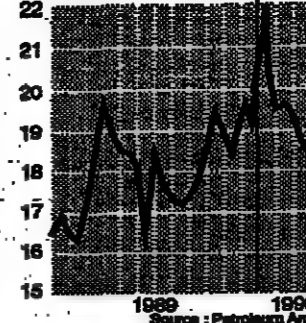
the actuary uses mean it is rather more secure than ICI's cyclical earnings from chemicals. Hence it deserves, in theory, a higher multiple than the meagre p/e of 3.5 which the stock market gives to ICI as a whole.

Yet for two reasons, SSAP 24 earnings need to be treated with great caution. Pension fund surpluses are only as good as a whitewash will allow them to be. Yet Government pension policy is a moving target. Radically, the 1990 Social Security Bill is suggesting that if a company wants to take a contribution holiday, then first it must increase pensioners' benefits in line with the RPI.

Few finance directors have got their minds round the potential impact on their accounts. Problem number two is that too many companies and their auditors appear either not to understand SSAP 24, or to ignore the awkward bits. The analyst's job is to evaluate the implications which a company's pension costs have for future earnings power. To do this, he must know the average remaining working life of the

Oil price

Brent blend crude (\$ per barrel)



Source: Petroleum Analysts

company's employees. But, across manufacturing industry, this can vary from 10 to 15 years. Smiths Industries has a pension fund surplus of about \$20m. Amortise it on a steady basis over 10 years, and pension costs fall \$2m; over 15, and the fall is \$3m. Yet apart from honourable exceptions, including Smith and BICC, it is hard to find a major UK company which discloses unasked its amortisation period. But without that figure, the whole exercise lacks meaning.

The answer is not a new SSAP. Number 24 took 15 years to produce. More likely, it is up to investors to prod finance directors towards genuinely relevant disclosure. This is also a golden opportunity for the analytical fraternity to justify its existence.

Oil

The recent plunge in the oil price indicates how easy it is for long-term pontifications on the energy market to be undermined by the short-term realities of supply and demand. It is clear that the Opec countries took advantage of the surge in prices earlier this year, which some believed was the start of a long bull market that would carry the crude price all the way up to \$80 a barrel by the year 2,000. Opec production reached 24mbd just as the cold snap in the US was ending and the fall before the summer driving season began. The result was a sudden build up in stocks and a sharp price fall with the spot Brent price dipping below \$15 a barrel.

None of this necessarily invalidates the long-term bull argument and indeed, to the extent that short-term difficulties dissuade producers from expanding capacity, it may even have a reinforcing effect. The reforms in eastern Europe should eventually increase demand, although in the short

term Bundesbank-inspired higher interest rates may be a more important restraining force. Political instability in the Middle East and the Soviet Union, could disrupt supply at any time. Some analysts estimate that the world industry is already operating at around 96 per cent of capacity. And finally, few expect new large sources of oil reserves to be found.

That may not stop the oil price from falling further in the short term, unless Opec surprises everyone by agreeing on a production cut. But the price has seen-sawed sufficiently over the past year and a half to make a more than seasonal recovery quite probable in the second half of 1990.

Charitable trusts

It would be surprising if companies like Wimpey, M and G, Trust House Forte and some of the London merchant banks, which are partly owned by sizeable charitable trusts, did not ponder the lessons of the recent Laing takeover battle. Here was a reasonably well run property company, which seemed virtually takeover proof by virtue of the 40 per cent plus of its shares owned by friendly charities. However, despite these defences, Laing has succumbed to a bid which cannot be described as generous.

A number of points can be made. First, the Laing trusts were of the charitable type and their responsibilities are more strictly circumscribed than the typical family trust, which have much more leeway to reject bids. At the time of the 1986 Rowntree bid the authorities, in the form of the Treasury Solicitor's Office, intervened to make sure that the various Joseph Rowntree trusts did not ignore financial pressures in spite of their loyalty to the company. This episode probably made other trustees think again about their responsibilities.

Although the Pail Mail cash bid promised a substantial increase in income most of the trusts could probably have still justified rejecting it, because it was 20 per cent below net asset value. However, after the institutions sold out it was clear that the charitable trusts were not prepared to behave like Mr Robert Maxwell, for example, and engage in bruising minority shareholder type tactics. If nothing else, the Laing battle will make many trustees demand better guidelines for their role in future contested bids.

India and Pakistan step back from brink

By David Housego in New Delhi

WITH the Indian and Pakistan foreign ministers due to meet at the United Nations special session in New York next week, the first signs have emerged of efforts by the two countries to defuse the tensions that have brought them close to war.

Though leaders on both sides continued to issue hellfire threats over the weekend, diplomats said there had been no unusual troop movements.

Strong pressure for the meeting between Mr I.K. Gujral and Mr Sahibzada Khan (the first time senior ministers from the two governments have met in over three months) has come from the US, the Soviet Union, Britain and Saudi Arabia which have been urging talks to reduce the risks of conflict.

Ms Benazir Bhutto, Pakistan's Prime Minister, left yesterday for a three-day visit to Saudi Arabia accompanied by members of the joint chiefs of staff and Mr Tanveer Ahmad, the Foreign Secretary.

Though her aim in going on what is officially described as a pilgrimage is to gain Saudi support in the event of a conflict, her absence from Pakistan suggests she at least does not believe war is imminent.

Whether the two foreign ministers can help reduce tensions is seen to depend critically on the fate of the Indian army's operation to break the back of the insurgency in



V. P. Singh

Kashmir. The curfew imposed on Srinagar and the other towns in the Valley entered its seventh day yesterday.

Foreign correspondents are hounded from Kashmir. But local journalists said that in Srinagar families were running short of food and medicines.

Amid uproar in the Indian Parliament, Mr Saffuddin Soz, a member from Kashmir, said that the curfew, which confines people to their homes, had caused great hardship to the people "who are dying of starvation."

Mr Mufti Mohammed Sayeed, the Home Minister, declared that there could be no relaxation in tracking down



Benazir Bhutto

terrorists and claimed the security forces had made a "breakthrough" in recent days in arresting important militants.

Officials in Srinagar say they have caught 12 area commanders of the Jammu and Kashmir Liberation Front.

Diplomats believe Prime Minister V. P. Singh's threat of war in Parliament was timed to coincide with the crackdown in Kashmir and was intended to warn Pakistan not to interfere.

The operation is by far the largest carried out by the army in Kashmir so far. Apart from breaking the organisational structure of the JKLF, the

operation is intended to demolish Kashmiris and demonstrate to them that separation from India has no future.

The crackdown coincides with the beginning of spring in the Valley, normally the height of economic activity, with both the agricultural and tourist season getting under way.

Diplomats believe that if the army can achieve some of its goals, this will relieve the pressure on the Prime Minister from the hawkish in his coalition to escalate further the conflict with Pakistan.

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B & C in rescue package talks for computer division

By Terry Dodsworth and David Owen in London

BRITISH & COMMONWEALTH Holdings, the troubled UK financial services company headed by Mr John Ginn, is expected to announce a rescue package for its Atlantic Computers leasing division within the next few days.

The company and its bankers were locked in discussions over the weekend on plans to put Atlantic into the hands of an administrator - a form of reorganisation which gives more flexibility than receivership.

The setback at Atlantic is

the latest blow suffered by B & C, the former UK stock market services company, once the country's second largest non-banking financial institution after Prudential Corporation.

Since peaking at 565p (\$9.20) in the summer of 1987, the group's shares have collapsed to just 50p, capitalising it at less than \$200m.

In recent months, the heavily indebted company has been engaged in an extensive programme of disposals in an effort to reduce borrowings.

The Royal Bank of Scotland, Barclays, Lloyds and Midland are all believed to be involved in the Atlantic bailout.

Midland has had a long-standing relationship with Atlantic, one of Europe's three top computer leasing companies.

Although the Bank of England has been keeping a close eye on the growing crisis at B & C, it refused to comment directly yesterday about Atlantic's difficulties.

A spokesman said that the bank understood that there

were problems at the computer leasing group, but that B & C's other companies were "trading in compliance with regulatory requirements."

B & C refused to comment on the Atlantic problem yesterday. But it is believed that the leasing group has been hit hard by increased competition, where International Business Machines has re-emerged as a strong force.

Atlantic's market share is understood to have slipped in the UK from some 70 per cent to 50 per cent.

UK faces oil order loss

FINANCIAL TIMES COMPANIES & MARKETS

Tuesday April 17 1990

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INSIDE

SmithKline taps US capital advantage

SmithKline Beecham plans to raise between \$500m and \$1bn in long-term capital through the issue of so-called auction rate preference shares in the US. The issue of such shares makes use of a long-standing US tax concession, which allows the double taxation of dividends when shares in one company are held by another. The group says that it will therefore be able to repay debt arising from its merger last July and increase shareholder funds, without diluting future earnings. Stephen Fidler reports. Page 22

Changing issues of privatisation



The message of recent initiatives at British Petroleum, British Telecom and British Airways is that the success of privatisation rests on a change in the way the businesses are managed. This change will, in turn, set a very different context for debates about the future of privatised companies in the UK. A by-product of privatisation has been the creation of a system of industry regulation. Combined with the powers of numerous Government bodies, this has created formidable regulatory force. The issue of the 1990s may well not be who owns companies but how they are regulated, writes Charles Leadbeater. Back Page

BTR decision expected Thursday

BTR, the UK industrial conglomerate, and Norton Company, the Massachusetts-based abrasives and ceramics manufacturer will file briefs today in Norton's appeal against a lower court ruling that the company must hold its annual meeting on April 23, rather than postpone it for two months as it had wished. The US appeals court decision is expected on Thursday. Meanwhile, the Massachusetts legislature is considering speedy passage of a bill which would limit the proportion of a company's board that could be elected in any one year to one-third. Page 26

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IBM surprises Wall St with advance of 9%

By Martin Dickson in New York

INTERNATIONAL BUSINESS Machines yesterday announced first-quarter results far better than market expectations, with net earnings rising by 9 per cent. The figures, coming at the start of the corporate reporting season, gave a more optimistic tone to Wall Street and a substantial boost to share prices.

The world's largest computer maker said net earnings rose from \$560m in the first quarter of 1989 to \$1.04bn in the initial three months of this year, on revenues up 11.4 per cent from \$12.7bn to \$14.2bn.

Earnings per share were up 12.4 per cent - helped by IBM's programme of repurchasing its stock - from \$1.61 to \$1.81. Wall Street analysts had pitched their earnings per share forecasts at around \$1.60, and in morning trading on the New York Stock Exchange IBM's shares rose sharply, to trade at around \$100 at lunchtime, up 9.3%.

The figures helped counter the market's rather gloomy expectations of industrial America's first-quarter earnings and share prices in general rose.

However, analysts were awaiting the outcome of a briefing session with the company before deciding whether to increase their earnings forecasts for coming quarters.

In recent years IBM has faced slowing growth in its core mainframe business and strong competition from nimble rivals in the desktop computer market. Last year it reported a 35 per cent drop in net profits, to \$3.76bn, as it took a \$2.42bn restructuring charge and announced plans to shed 10,000 employees.

Mr John Akers, the chairman, said yesterday that the first quarter growth resulted from continued good demand across the company's product line. "Our strategy of listening to our customers and improving the competitiveness of our products and services is working."

A company representative said the advance had been spread across all geographical areas, with balanced growth in local currency terms. Last year saw modest growth outside the US and little movement in US operations.

Revenues from sales in the quarter totalled \$8.8bn, up nearly 13 per cent from \$7.9bn, while those from support services were \$2.4bn against \$2.2bn, and from software \$2.06bn, up from \$1.93bn.

Costs and expenses were 8 per cent higher at \$12.05bn, but the company said its restructuring plans would only take effect in the second half of this year.

Hitachi buys California printer maker Dataproducts

By Our Financial Staff

DATAPRODUCTS, the US computer printer manufacturer, has agreed to a \$160m takeover by Hitachi, the Japanese electronics group.

Two companies in the Hitachi group, Hitachi Koki and Nissei Sangyo, are making a \$10 a share cash offer.

Dataproducts, based in California, has been fighting off hostile overtures from DPC Acquisition Partners for more than a year, and for much of 1989 had been actively seeking an acquirer. It took itself off the market in September, however, planning to cut costs and buy back shares.

The acquisition by Hitachi is significant because it represents a takeover of US high-technology companies are rare - and controversial.

Dataproducts had once had a strong position in the US computer printer market, but had lost ground in the face of competition from Japan. It has been planning its hopes on a new solid-ink colour printer, due out this year, but dissident shareholders have criticised the cost of the project.

For the six months to September 23, 1989, Dataproducts lost \$7.6bn on sales of \$163.3m, compared with a profit of \$1.8m on sales of \$173.6m a year before. In March, the company bought in 4m shares at \$10 each, an offer heavily oversubscribed. On Friday, the shares closed at \$6.3.

The deep troubles that B&C found in Atlantic

Terry Dodsworth and David Owen assess the problems



John Gunn: embarked on wide-ranging programme of disposals

Atlantic Computers has always been destined to be the focus City attention when British & Commonwealth Holdings' full-year accounts are unveiled on April 22.

Since the decisions to buy the leasing group was made 22 months ago, analysts have hardly had a kind word to say about the \$407m (\$650m) purchase. After Atlantic contributed just \$5.7m to profits in the six months to June 30, gloom about B&C's prospects deepened. It was expected that the heavily-indebted financial services group would be forced to make substantial provisions for the unit in its forthcoming results. Now the Bank of England's intervention has strengthened fears that Atlantic's problems may be so bad as to undermine progress in B&C's main financial services business.

The group - which, as part of a management reshuffle, recently appointed Sir Peter Thompson as chairman in succession to Mr John Gunn - has embarked on a wide-ranging programme of disposals in a bid to cut debts of about £700m. Its latest sale, which lifted to some £300m the amount raised since November, was that of Gartmore Investment Management to Banque Indosuez of France for £140m.

This retrenchment is a far cry from the process of expansion that culminated with the Atlantic acquisition. At the time, the leasing company had experienced a four-year period of steady growth. Floated on the stock exchange in 1985, when pre-tax profits stood at \$3.7m, Atlantic had pushed profits up to \$38.2m in the year before B&C's purchase. But little has gone right for it since then.

About a year before the acquisition, Atlantic's founder, Mr John Foulston, was killed in a racing car accident. His innovative financing techniques had catapulted the group into the top three European computer leasing companies. Without him Atlantic seemed to lose some of its sense of direction.

At the same time, Atlantic has been hit by a series of negative changes in the computer leasing environment. Higher interest rates have adversely affected the company's financing and that of its customers. Profit margins have also been hit by the steady decline in the price of computer hardware, as competition in manufacturing sector has increased and the cost of technology has fallen. This means that the real value of the computers on which the leasing companies make their money once the leasing period is over have declined.

To compound this squeeze on margins, the leasing companies have had to face an aggressive new challenge in this field from International Business Machines, the world's leading manufacturer of large-scale computers.

IBM is the main supplier of machines for leasing. It also used to be a big lessor itself, but in the early 1980s it pulled back from this activity to concentrate more heavily on selling its machines. In the last two years or so, however, it has moved back strongly into leasing, causing howls of anguish throughout the industry.

IBM has to tread carefully in its competitive policies because of anti-monopoly considerations. Only a few years ago, for example, it reached agreement with the European Commission on information-sharing plans which gave leasing companies the right of access to some information on its product-lines. Nevertheless, it can easily hurt competitors with its pricing policies, and the industry is complaining at the moment about the advent of a cut-price sales war.

Leasing companies are also having to face a further problem from IBM - the coming launch of its planned new Summit range.

Advance reports say Summit could be IBM's most important launch for at least a decade, incorporating radical innovations in speed, power and miniaturisation in a way that will quickly make the present generation of machines obsolete.

The effect of stories of this kind is to reduce the value of a leasing company's stock of computers, since they may be outdated soon. And they also raise the riskiness of continuing to invest in new machines for leasing, since their value may be sharply reduced once the Summit machines appear.

The last thing B&C needs, as it grapples with its troubled subsidiary, is a sharp increase in the riskiness of the industry's basic business. Yet that is exactly what has happened; and the discussion now under way will establish just how serious a price it must pay for the decision to buy into computer leasing.

Economics Notebook

The UK and minimum reserves

EVERY 50 often a well tried and trusted economic policy tool in one country is plucked out of obscurity and becomes an object of enthusiastic support in another.

This process seems to be happening to minimum reserve requirements, the non-interest bearing deposits that banks in West Germany are obliged to place with the Bundesbank.

These reserves, which in January amounted to some 4.9 per cent of West German bank liabilities, were once an important weapon in the West German Bundesbank's monetary arsenal. They entered a gentle decline in the 1980s. But they are increasingly being put forward as a way for Europe to curb the private sector's large appetite for credit without the pain of continuing high interest rates.

Minimum reserves have some superficial attractions as an instrument of money and credit control. By raising or lowering them, a central bank can give the banking system a very clear signal that it wants to clamp down on or ease credit expansion.

But suggestions that minimum reserve requirements act as an effective credit control that can avoid the need to raise interest rates are more questionable. The British authorities believe that UK banks, which are not subject to an increase in minimum reserve requirements, would simply compete all the harder for deposits, raising interest rates in the process.

The official UK view was put forcefully by Mr Robin Leigh-Pemberton, the Governor of the Bank of England, in his recent Durham lecture. He said: "They work through their effect on money market interest rates, and would not therefore provide an alternative to interest rates, simply an alternative - and an unnecessary

one - to our existing methods of influencing interest rates."

If the British are so negative about minimum reserves, why do the Bundesbank and other central banks retain them?

Part of the answer could be inertia: many monetary authorities like to hold on to policy instruments in case they might come in useful one day. Minimum reserves are not without their critics inside the Bundesbank. They encourage banks to take business off shore. They have been largely responsible for the growth of Luxembourg, which like Britain does not impose reserve requirements, into a Euro-Deutsche bank centre.

Yet an article in the Bundesbank's March monthly report underlined that most central banks have some sort of minimum reserve requirement, and not solely for historical reasons. The Belgian National Bank was given powers in 1988 to introduce such reserves, although it has yet to make use of them. The Bundesbank has suggested that minimum reserves could grow in importance if all European Community central banks adopt them as a policy instrument on the way to Monetary Union.

But the Bundesbank also pointed out that it has used minimum reserves far less frequently since the collapse of the Bretton Woods fixed exchange rate system in 1973, preferring to control the money market through open market operations.

In Germany, where minimum reserves can also be used as working balances by banks, falling reserve ratios in recent years have meant that reserve requirements nowadays total roughly the amounts that banks should hold in liquid form to be able to conduct business satisfactorily.

The penal non-interest bearing aspect of West Germany's

minimum reserves is offset by privileges given to the banking system such as subsidised discount facilities at the Bundesbank and the clearing, free of charge, of electronic fund transfers and other transactions through the Bundesbank.

Significantly, West Germany's minimum reserve ratios have stayed unchanged since February 1987 in spite of the strains imposed on monetary policy by the Louvre Accord, the October 1987 Wall Street Crash and the resurgence of inflation in the leading industrial countries.

The Bank of England has the power to introduce minimum reserve requirements in the form of special deposits from the banks, although such deposits bear interest. The official position, argued in the Government's Budget "Red Book", is that the Bank is better able to influence interest rates by varying the size of its market purchases of bills and by the weekly Treasury bill tender. Certainly the British authorities doubt whether minimum reserves requirements would have any salutary psychological effect on British banks and their borrowers.

Mr John Major, the Chancellor, was asked about credit growth and minimum reserves when he appeared recently before the House of Commons Treasury and Civil Service Committee. Describing Britain's strong attachment to credit despite high interest rates as a "conundrum", he observed that 25 of extra income seems to become 225 of extra borrowing in the UK, whereas in other countries an additional 65 of income becomes 25 more savings.

It is doubtful whether minimum reserve requirements could change that state of affairs.

Peter Norman

THIS WEEK

THIS IS a busy week on both sides of the Atlantic, with the market's interest chiefly fixed on retail sales and the public sector borrowing requirement (PSBR) in the UK, and on consumer price inflation in the US.

The figure for the March PSBR is expected to be in the region of £2.6bn, according to the consensus of analysts' forecasts compiled by MMS International, the financial research company.

This could reflect heavy local authority spending before the start of the new financial year and take the total debt repayment for the cumulative fiscal year to February to about £2.5bn-£2.7bn.

In the March Budget, Mr John Major, the UK Chancellor, acknowledged that the budget surplus had shrunk to half the size forecast by the Treasury a year ago.

The gilt market - through which the Government operates its funding policy - has already discounted news of such a diminished surplus for 1989/90.

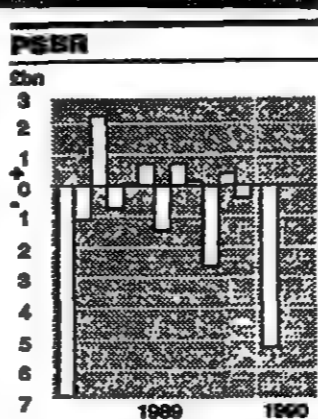
The inflation news in the US is not expected to be of much cheer to the markets. There is little expectation that the consumer price inflation is on a downward trend, and consequently less hope that the Federal Reserve will ease interest rates.

On Wednesday, UK provisional retail sales figures for March will provide further confirmation of the trends in consumer activity, which analysts are describing as sluggish.

February's retail sales showed surprising buoyancy with a 2.3 per cent monthly rise in sales volumes. MMS says the median forecast for March is for a drop of 0.9 per cent.

Expected in West Germany this week, on no set dates, are statistics for producer prices and money supply data for March.

Other events and statistics, with consensus forecasts from MMS in brackets include:



Today: UK, Confederation of British Industry/Financial Times survey of distributive trades for March. US, consumer prices (0.2 per cent), capacity utilisation (82.9 per cent) housing starts, industrial production (0.3 per cent), building permits, real earnings. France, consumer price inflation (0.2 per cent, month-on-month, 3.3 per cent year-on-year). Japan, money supply for March (11.5 per cent).

Wednesday: UK, index of the output of the production industries for February (flat). Manufacturing output (0.1 per cent). Unit wage costs in manufacturing for February (0.1 per cent). Provisional retail sales for March. Speech by Lord Calhoun, the paymaster general, on public procurement, organised by the National Economic Development Office. Housing and construction statistics. Canada, preliminary merchandise trade balance for February (C\$326m). Switzerland, balance of trade for February. Austria, retail trade for February.

Thursday: UK, public sector borrowing requirement for March. Fourth quarter institutional investments, West Germany. Bundesbank regular fortnightly council meeting. Friday: US, federal budget (-\$40m). Japan, personal consumption and income. Canada, consumer price index for March (0.4 per cent) and year-on-year (5.3 per cent).

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INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Australian dollar sector falls from favour

AUSTRALIAN dollar Eurobonds, once one of the hottest sectors of the market, have fallen from grace in the eyes of some of the firms which underwrote them.

In the past two weeks, three firms have announced they will no longer make two-way prices to institutions, and two of these say they will withdraw from the sector completely.

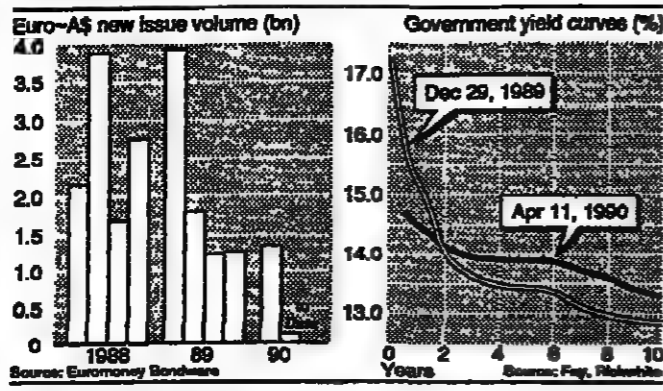
Although none of the firms was regarded as a significant force in the Australian dollar sector, the decision to withdraw reflects a reassessment of the nature of the securities and the investor base which buys them.

Wood Gundy was the first of the three to withdraw, voicing a wish to concentrate on its main business in Canadian dollar Eurobonds and in underwriting issues for Canadian clients. UBS Phillips & Drew, citing diminishing liquidity in the secondary markets for Australian dollar issues and a desire to concentrate on products aimed at its normal, institutional investor base, also ceased market making.

Finally, last Wednesday, Barclays de Zoete Wedd said it would no longer make markets with other institutions, although it would continue to make two-way prices to customers in issues it had helped to underwrite.

Fundamentals for the sector are not particularly poor. Economists continue to be optimistic about the chances of interest rates falling in the sector. Although weakening the currency, such falls should offer investors capital gains and

Australian dollar bonds



make Australian dollar bonds more attractive. They also point to the prospect of falling inflation, illustrated by the drop in average weekly earnings growth to 6.6 per cent in the year to November 1989 from 7.5 per cent a year earlier.

Redemptions of existing Eurobonds in the currency will total nearly A\$3bn in the current quarter, with the possibility that many owners of the bonds will want to reinvest in Australian dollars.

One reason for investors to remain in the currency is that Australian dollars have fallen sharply against the home currencies of many of their typical retail clients over the past year. For instance, as of Thursday the D-Mark/Australian dollar exchange rate was 1.23 compared with 1.35 in July 1989 and 1.49 in July 1988.

Issuers of Australian dollar securities are counting on investors being unwilling to book currency losses and stay-

ing in the sector as a result. But fundamentals do not explain why market makers are dropping out of the business.

Dealers say that euphoria over the interest of investors in high-coupon currencies in earlier years ended many firms' interest in the business which probably should not have been market makers in the first place. "The market is over-brooked," concludes one BZW official.

Habitual buyers of the securities are, and have always been, small retail investors in West Germany and the Benelux countries that like the high interest rates and are unlikely to sell the bonds prior to maturity just because the currency looks weak.

And while many non-traditional buyers have been periodically attracted to the sector, it has never attracted enduring interest from institutional buyers in the way that the Cana-

dian dollar Eurobonds have. But there have been periods when arbitrage opportunities and swap rates for issuers in Australian dollars have been ripe, and new-issue volume in the sector has been healthy.

New-issue volume peaked in the first quarter of 1989 when 53 issues totalling about A\$3.95bn were launched.

In the second quarter issue volume was healthy, but more modest, 29 issues totalling A\$1.77bn.

But in the third and fourth quarters of last year volume sagged to no more than A\$1.2bn in each, with only slight improvement seen in the first quarter of this year.

After some unexpectedly adverse trade data from Australia in the middle of last year, the price of holding Australian dollar Eurobonds in inventory became more expensive. Those market makers without dependable outlets for retail buyers for their securities have periodically found themselves engaging in so-called knock-for-knock trading with other houses.

This process, a type of "pass the parcel," involves market makers asking each other, by turns, the selling price of a list of securities. The process can force dealers to buy others' unwanted bonds and results in no new business opportunities to show for it.

And those houses without immediate access to retail investors have no clear idea of how to price the securities. A trader at one market maker says: "If you're not seeing the business first hand, you have

no idea about where to price the securities. And if you're the last one to own the bonds, it can be expensive."

According to officials at F&I, Richwhite, a New Zealand-based investment bank specialising in Australasia, recent volatility in the market may also have been a contributing factor to the diminishing interest of institutional firms.

Moody's Investors Service said that credit-rating downgrades of US corporations outpaced upgrades by a factor of four to one in the first quarter of 1990 and, in light of a sluggish economy, the trend is likely to continue.

Key factors in the downgrades were declines in real estate values and the large debt burdens of many speculative-grade companies.

Moody's said the sharpest rating adjustments occurred in the financial institutions sector where downgrades outpaced upgrades by a factor of more than seven to one during the first quarter of 1990, compared with a ratio of 2.5 to one the year before. More than half the downgrades were attributable to asset-quality declines stemming from falling real estate values.

Moody's also noted that downgrades of short-term commercial paper far outpaced upgrades. In 1989 several defaults on commercial and Euro-commercial paper resulted from the borrower's inability to obtain alternate sources of short-term financing.

Norma Cohen

CORPORATE FINANCE

'Auction rate' issue taps established tax concession

SMITHKLINE Beecham, which last week announced it would raise between \$500m and \$1bn in long-term capital through the issue of so-called auction rate preference shares in the US, is tapping a market that has grown to more than \$25bn in six years.

The issue of such shares makes use of a long-standing US tax concession, which aims to reduce the double taxation of dividends when shares in one company are held by another.

Any dividends paid by one US corporation and received by another are exempt from 70 per cent of income tax. The concession - the so-called dividends received deduction - reduces the income tax rate on dividends to 10.2 per cent if the company holding the shares is subject to the usual 34 per cent tax rate.

This makes preference shares an attractive investment for tax-paying investors, and allows companies to issue them at 75 to 85 per cent of the benchmark short-term yield - the Federal Reserve's composite rate on commercial paper issued by AA-rated companies. With the Fed composite now about 10 basis points below London interbank offered rates, this is cheap capital.

SB is following such household US names as Coca-Cola, J.P. Morgan and Ford. French companies, such as Michelin, have also used the market.

According to SB, the attrac-

tion is that it can repay debt arising from its formation by the merger of SmithKline Beecham of the US and Beecham of the UK last July, and increase shareholder funds without diluting future earnings as would the issue of ordinary shares or convertible bonds. Its issue is being organised as a private placement by Shearson Lehman Hutton. As usual, it is being arranged on a best-efforts basis, with no underwriters.

Typically, the firm arranging the issue will determine demand from investors with the help of other Wall Street houses. The rate on the securities - for an initial period, typically of 49 days - is set by Dutch auction. All investors are paid the rate implied by the lowest-accepted bid.

The initial auction of all the securities does not usually take place on the same day, but at weekly intervals to stagger the maturities. As they mature, another auction takes place to set the rate for the next period.

This auctioning system is now very slick. Only three are said to have failed in the last six years. One was due to a management buy-out which suddenly lowered the quality of the issuing company's securities; another involved a failed bank.

But if auctions do fail, the investor is left holding the securities and is paid a fall-back rate. In the case of securities rated AA or above, the fall-back rate is typically 120 per cent of the Fed AA commercial paper rate. For those rated A, it is typically 150 per cent; for BBB companies 175 per cent and for BB companies 250 per cent.

There is another potential danger in issuing such securities: the US Congress. Some legislators have for years been attempting to abolish the dividends received deduction, and have succeeded in bringing it down from 100 per cent to 80, and now to 70 per cent. Pressure to reduce the tax break can be expected to continue.

SB's significant US operations allow it to take advantage of the tax concession. But there is another route for UK companies.

More than \$1bn worth of so-called preference shares have been issued by companies such as B&I, English China Clay and Bank Leu. Pearson, the conglomerate which owns the Financial Times, said this month that it would issue up to \$500m and was talking to Merrill Lynch, the leading house in this sector, about an initial offering of \$200m.

This takes advantage of other tax concessions. The UK company pays its dividend to US preference shareholders of 80c, 75c and adds a further 25c to account for the US advanced corporation tax, which it will offset against its UK tax bill later. Under the tax treaty between the US and UK, dividends remitted to the US are subject to UK withholding tax of 15 per cent, reducing the payout to 85c.

That withholding tax makes the securities unattractive to US tax-exempt investors. But to those paying tax, in particular those with the capacity to offset the withholding tax payment against their own tax bill, they can be attractive.

Any company contemplating issuing such shares must first be prepared to obtain a US credit rating. And there are risks too: for example, the rate of advanced corporation tax could easily be altered.

By contrast with the rapid growth in these US-based markets, the long-standing market in UK preferred stock languishes. A mere \$500m to \$600m is estimated to be outstanding.

Stephen Fidler

EUROMARKET TURNOVER (\$m)

Primary Market	Debt	Equity	Other
1989	243.0	200.0	11.00.3
1990	243.0	200.0	11.00.3
1991	243.0	200.0	11.00.3
1992	243.0	200.0	11.00.3
1993	243.0	200.0	11.00.3
1994	243.0	200.0	11.00.3
1995	243.0	200.0	11.00.3
1996	243.0	200.0	11.00.3
1997	243.0	200.0	11.00.3
1998	243.0	200.0	11.00.3
1999	243.0	200.0	11.00.3
2000	243.0	200.0	11.00.3
2001	243.0	200.0	11.00.3
2002	243.0	200.0	11.00.3
2003	243.0	200.0	11.00.3
2004	243.0	200.0	11.00.3
2005	243.0	200.0	11.00.3
2006	243.0	200.0	11.00.3
2007	243.0	200.0	11.00.3
2008	243.0	200.0	11.00.3
2009	243.0	200.0	11.00.3
2010	243.0	200.0	11.00.3

Week to April 12, 1990 Source: AIBD

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Da-Hochi Kangyo A'riaia	80	2000	10	(d)	102	OKB Int.	-
C.I. Finance (Holland)	30	1994	8 1/2	(d)	101 1/2	IBJ Int.	8.999
EIB	15.75	2008	15.6	(n)	100	Morgan Stanley Int.	-
AUSTRALIAN DOLLARS							
IBM Australia Credit	75	1992	2	15 1/2	101.85	Westpac Banking	14.246
STERLING							
ADT Ltd.(b)S	75	2005	15	8	100	CSFB	8.180
TMC PIMBS 4th Financing	200	2029	7	(e)	99.76	Salomon Brothers	-
British Telecom(I)	100	1993	2 1/2	13 1/2	98.45	BZW	-
SWISS FRANCES							
EIB	150	2000	-	7 1/2	101 1/2	J.P. Morgan Secs.	7.302
West. Kontrollbank(g)	100	2002	-	7 1/2	102 1/2	Wirtschafts-und-Prakt.	6.936
World Bank	100	2000	-	7 1/2	102	UBS	7.212
First City Trust(a)	(a)	1998	-	7 1/2	(a)	S.G. Warburg Sodite	-
PESETAS							
Council of Europe	100n	1995	5	14	101	Banco Bilbao Vizcaya	10.711
FINNISH MARKKA							

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Warner Communications Inc.	Zero Coupon Bonds due 2000
The undersigned acted as financial adviser to Time Warner Inc. in this transaction	Price: 3300 per cent
Reeves Communications Corporation	Cellular Communications, Inc.
has been acquired by	has exchanged
Thames (USA) Inc.	Cellular Mobile Systems of Texas, Inc. (a 50% partner in the Dallas, Texas non-wireless cellular telephone system)
a wholly-owned subsidiary of	for 1,600,000 shares of Cellular Communications, Inc. common stock formerly owned by
Thames Television PLC	McCaw Cellular Communications, Inc.
The undersigned acted as financial adviser to Reeves Communications Corporation in this transaction	The undersigned acted as financial adviser to Cellular Communications, Inc. in this transaction

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CONVOCATION TO THE ORDINARY GENERAL SHAREHOLDERS' MEETING

Shareholders of ordinary shares are convened to an ordinary general meeting at 9 a.m., April 27, 1990 at the Sala Congressi in via Bertola 34, Turin, and if required, to a second meeting on May 16, 1990, same time and place, to discuss and resolve the following:

AGENDA

- 1) Reports of the Board of Directors and Statutory Auditors' Committee, the Balance Sheet and Income Statement for the financial period ended December 31, 1989 and resolutions arising therefrom.
- 2) Final balance of the certification costs relative to the financial period 1989.
- 3) Appointment of an external auditing company for the three-year period 1991-1993.

Shareholders are entitled to take part in the General Meeting provided they have deposited their shares at the Company's registered offices in Via S. Dalmazzo 15, Turin, at the Company's headquarters in Via Flaminia 189, Rome, or at the appointed savings banks; Company-held shares must be deposited at the Monte Titoli S.p.A. no later than five days before the ordinary general meeting date. Shareholders abroad may deposit their shares at authorized bank branches.

MICHELE GIANNOTTA
The Chairman
of the Board of Directors

The Balance Sheet and Income Statement, with relative reports, the Reports of the Board of Directors, the Statutory Auditors' Committee and the external Auditing Company will be available for consultation to the shareholders at the Turin offices (Via S. Dalmazzo 15) and the Rome offices (Via Flaminia 189) from April 11. These will be mailed to those shareholders who regularly attend the Shareholders' Meetings or request the reports by telephone as soon as possible: Turin (011) 55141; Rome (06) 36881.

The above reports may be collected by the shareholders from the morning of April 24 onwards, from the above offices in Turin and Rome.

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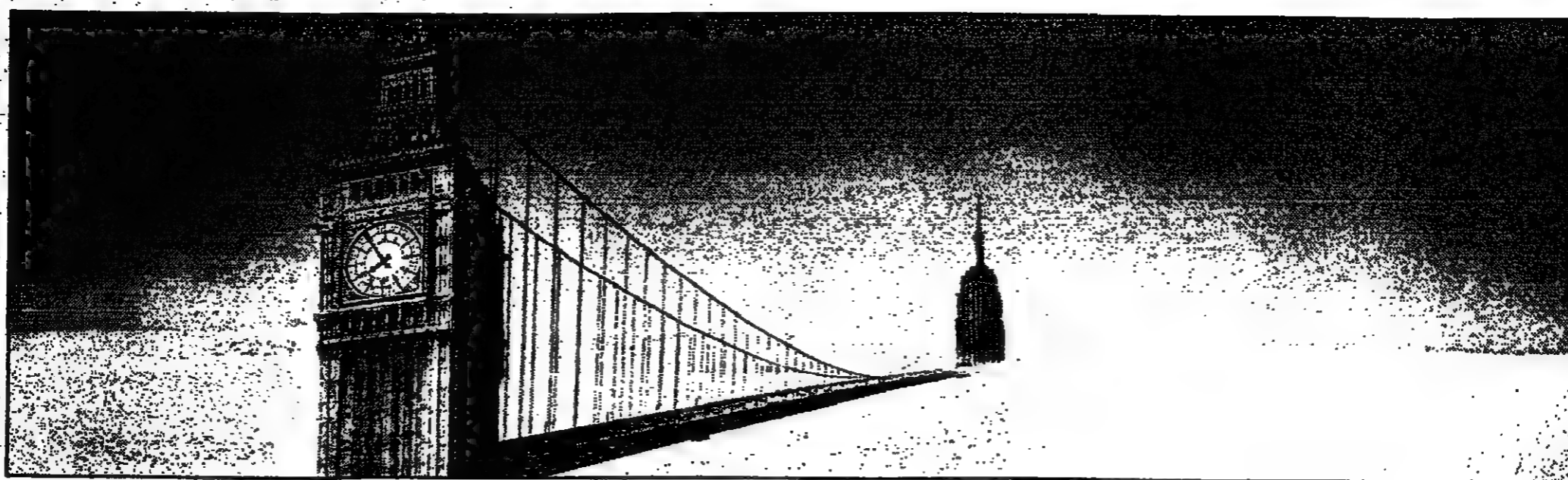
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INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Prices drift lower after bad auction

DISTURBED by the government's second bad auction of 40-year bonds but ignoring the big drop in oil prices, US credit-market prices drifted a little lower in last week's holiday-shortened trading.

The market resistance that the Resolution Funding Corporation (Refcorp) is finding for such an extended maturity triggered a spate of criticism and suggestions about how this new government agency should raise money to bail out insolvent savings and loan associations.

Tuesday's difficult auction of \$3.5bn of 40-year Refcorp bonds was a further reminder of the enormous havoc the thrift crisis is wreaking on the US financial system.

More evidence came on Wednesday. The Resolution Trust Corporation, the sister agency which actually handles the bonded-out thrifts, said it would need to raise \$45.3bn of working capital from the markets via the Treasury in the three months ending June.

"This caused quite a lot of consternation among market participants because it implies a lot more debt in the second quarter," says Ms Maria Florio Ramirez, head of Maria Ramirez Capital Consultants.

It was only 15 years ago that the total federal government budget deficit for a full year was \$45.2bn. With the two thrift agencies displaying such a voracious appetite for money, the market was understandably apprehensive ahead of Refcorp's auction.

Moreover, the precedent was bad. Its previous effort this year to sell the first 40-year government bonds since the 1960s was an utter debacle. Demand was meagre and the

high yielding bonds dragged up yields on Treasury securities.

On the face of it, conditions were more favourable for this second trip to the market. Yields were higher, the spread over 30-year Treasuries bigger, the amount smaller and the timing better than for the first.

But the results were not much better. The average yield for the \$3.5bn of bonds was 8.89 per cent, higher than expected, and Refcorp had to accept bids up to 8.94 per cent to sell the lot.

Though the bidding was unaggressive, at least the demand was a bit better. Bids totalled \$8.9bn compared with \$8.16bn for \$5bn worth of bonds the first time. It is still not good enough, considering Treasury auctions usually enjoy three-fold cover.

The basic problem is that few investors are interested in 40-year obligations. It was hoped originally that some big institutional investors would want them to match long-term obligations such as pensions.

That demand has failed to materialise because the investors are still using 30-year Treasuries. They are far better because they can be hedged, their market is huge and highly liquid, and they are cheaper.

The keenest buyers of the 40-years are dealers who then strip the bonds, selling the interest and principal portions separately. The latter are offered as zero coupon bonds, deeply discounted as low as \$350 per \$1,000 of face value.

About half the first chunk of 40-years ended up stripped. All this makes for a heavily dealer-oriented auction with little evidence of true investor appetite for the paper. Part of

the problem is that Refcorp is a new, untested entity and investors do not know quite what to make of its securities. The securities do not, for example, carry a direct and full government guarantee. Rather, the Treasury guarantees only the interest while the principal is indirectly backed by Treasury securities.

Worse, investors worry that Refcorp might swap the market during its lifetime. The thrift crisis deepens almost daily, with the cost of the bailout rising to some \$300m by the latest government estimate.

Opinions differ on the impact of the Refcorp bonds on the Treasury market. Griggs and Santow, the firm of money market economists, believes they will continue to drag down the long end of Treasury bonds as they have after previous auctions.

Smith Barney argues, however, that investors will differentiate between the two issuers. "In the weeks ahead, we expect to see the Treasury market recover from the foul wake of the Refcorp auction and for the Refcorp/Treasury yield spread to widen somewhat."

Either way, Refcorp will still have a problem raising money. It has two main options, says Griggs and Santow. It can return to 30-year bonds which it sold quite well at its first auction. Or, if it insists on sticking with a 40-year maturity, it should organise a selling syndicate of dealers. Other government agencies have done so successfully for years and it would save the Government money compared with the cost of an auction.

Further reminders of financial debacles also popped up last week in the corporate side of the market. In the junk bond sector, Ames Department Stores turned in a much larger than expected loss for last year because sales at the Zaire discount stores it bought in 1988 dropped 18 per cent.

Sending another disaster in the stores sector to accompany the Campeau collapse which routed junk bonds earlier this year, the market knocked some 12 points off the price of Ames' 13 per cent senior reset notes and issues from other retailers softened as well.

On a slightly brighter note, though, junk bond prices in general were essentially flat for the week and a glimmer of demand materialised for some of the more obscure issues still languishing.

The tone of the market was helped by soaring prices for some issues of RJR Nabisco, the tobacco and food group controlled by Kohlberg Kravis Roberts (KKR). Its payment-kind bonds (PKBs) have been highly volatile in recent weeks. Their price has fallen on fears that KKR will have to reset the coupons at more than 20 per cent. They have risen on rumors that KKR will launch a tender offer for the PKBs or swap them for a new bond sweetened with equity or cash or both. KKR had no comment.

Overall, the US bond market "continues to be frustrated by the fact that prices often seem to move in a way different from what economic numbers suggest should be the case," said Griggs and Santow. "Moreover, it seems to be shifting almost daily" in its opinion of how to respond.

Roderick Oram

US MONEY MARKET RATES (%)

	1st	1 week	1 month	3-month	6-month
Prime	8.13	8.25	8.30	8.35	8.40
Overnight Treasury bill	8.10	8.15	8.20	8.25	8.30
90-day Treasury bill	8.10	8.15	8.20	8.25	8.30
3-month Treasury bill	8.10	8.15	8.20	8.25	8.30
6-month Treasury bill	8.10	8.15	8.20	8.25	8.30
1-year Treasury bill	8.10	8.15	8.20	8.25	8.30
2-year Treasury bill	8.10	8.15	8.20	8.25	8.30
3-year Treasury bill	8.10	8.15	8.20	8.25	8.30
5-year Treasury bill	8.10	8.15	8.20	8.25	8.30
10-year Treasury bill	8.10	8.15	8.20	8.25	8.30
30-year Treasury bill	8.10	8.15	8.20	8.25	8.30

US BOND PRICES AND YIELDS (%)

	Price	Change	Yield	1 week	4 wk
30-year Treasury	99.4	0.1	8.89	8.94	8.99
20-year Treasury	99.4	0.1	8.89	8.94	8.99
10-year Treasury	99.4	0.1	8.89	8.94	8.99
5-year Treasury	99.4	0.1	8.89	8.94	8.99
1-year Treasury	99.4	0.1	8.89	8.94	8.99

Money supply: In the week ended April 2, M1 rose \$2.4bn to \$804.5bn.

UK GILTS

Traders feel the weight of bad news

LAST WEEK gave the gilt market plenty to think about over the long weekend. Bad news on the economy piled up thick and fast, and the retail buying that briefly boosted the market earlier this month was not sustained.

The benchmark 11% Treasury 2008/07 closed on Thursday at 97.4, yielding 12.12 per cent. The June gilt futures contract touched a low of 80 1/4 on Thursday, down to the levels hit the day after the Budget. But volume in the cash markets was very low; many traders decided they would rather disappear to the Cotswolds than watch the gilt market go down.

The principal source of concern was inflation, and fears that a wage-price spiral might be about to upset even the pessimistic forecasts for the rest of the year.

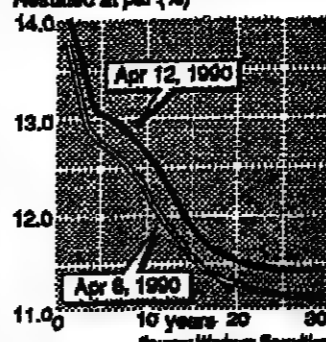
The retail price index increased at an annual rate of 8.1 per cent in March, and the underlying increase in average earnings rose a quarter of a per cent in February to 9.5 per cent, the first increase in four months.

Factory-gate price increases were at a five-year high in March, despite a continued slowing of input prices. Inflation, more news on inflation, and the fact that prices often seem to move in a way different from what economic numbers suggest should be the case, said Griggs and Santow. "Moreover, it seems to be shifting almost daily" in its opinion of how to respond.

The window of opportunity which some retail buyers saw earlier in the month - that

UK gilts yields

Reset at 10% (4)



Source: Warburg Securities

gilt yields might be peaking, and that now was the time to buy before everyone piled in - looks less certain.

Treasury forecasts that inflation will reach 7 per cent by December are looking increasingly optimistic, even on the basis of what is known about the impact of the poll tax and mortgage rates. The underlying rate also rose in March, and food price inflation shows little indication of letting up.

It is now clear that the months leading up to the autumn statement and the party conference will be a test of management's ability to hold prices in check. The Government's strength in the face of adversity and the market's collective nerve. Once one has added in the possibility of a West German interest rate rise the prospects look grim.

Nor will political uncertainty disappear, with the local elec-

tions around the corner in early May. Good news on the economy will not appear until the end of the summer, if then.

The problems with the Government's current strategy on inflation are indicated by one curious statistic which Mr Leo Doyle of Kleinwort Benson has unearthed. Base rates have now been unchanged at high levels for 180 days, the longest period since they became the prime tool of monetary policy, he points out.

However, lending continues to rise, not to the personal sector but to companies to finance acquisitions and distress borrowing.

Deregulation has meant that base rates are not an accurate guide to the cost of new money, Mr Doyle says. Moreover, rising inflation will undermine the level of real rates still further, putting pressure on the existing structure of rates.

There seems to be no room for bringing down base rates for some time to come. Indeed, if falling comes under pressure again, rates may have to rise. This is one factor leading some City economists to predict earlier, rather than later, entry to the Exchange Rate Mechanism of the European Monetary System.

"There is no alternative," trumpeted Nomura Research Institute last week. "ERM entry may be the only means of achieving the interest rate cuts necessary for the Conservatives to win the next election."

The risks attendant to such

a strategy, including the possibility of instability in short-term interest rates and the need for a contractionary fiscal policy, mean that ERM entry would be no panacea.

Indeed, if a decision on ERM entry is perceived to be based on political grounds, and if the anti-inflationary policy which accompanies it is not thought to be credible, the result could be worse than if the UK had not joined at all.

The key to the EMS is that it is not simply a support mechanism, but a framework for policy to achieve the desired stability in exchange rates.

The Labour Party has been making reassuring noises, in public and in private, about their plans for policy, and ERM plays an important role. Mr John Smith, Shadow Chancellor, is waiting in the wings, and even the City audience seems to want him on the stage.

A poll of 77 economists carried out last week showed 61 per cent saying a Labour Government would be good for the UK economy, though the figure for the City economists was lower. Labour is promising a return to discretionary fiscal policy, though without any "dash for growth" that might destabilise the markets.

ERM entry is seen by some in the Labour Party, as in the Conservative Party, as an ideal way of bridging the gap between themselves and the markets.

Andrew Marshall

Japanese acquisitions increase by 33% to 740

THE number of Japanese mergers and acquisitions jumped by 33 per cent in the year to March 31 1990, to a record 740 cases, according to Yamaichi Securities, Reuters reports from Tokyo.

Purchases overseas accounted for 448 of the total, up from 334 in the previous year. There were 236 in North America against 163 in 1988/89, 114 in Europe against 83 a year

ago, 73 in Asia and Oceania, down from 85, and 35 compared with 23 in remaining countries, said Mr Kiyoshi Wazari, deputy general manager of the mergers and acquisitions strategy department at Yamaichi Securities.

The number of overseas companies buying up Japanese concerns, however, remained unchanged from the previous year at 14.

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US BOND	Yield	Price	Change	Yield	Price	Change	Yield	Price	Change
30-year Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
20-year Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
10-year Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
5-year Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
1-year Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
3-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
6-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
1-year Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
3-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
6-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
1-year Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
3-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
6-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
1-year Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
3-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
6-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
1-year Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
3-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
6-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
1-year Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
3-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
6-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
1-year Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
3-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
6-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
1-year Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
3-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
6-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
1-year Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
3-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
6-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
1-year Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
3-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
6-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
1-year Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
3-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
6-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
1-year Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
3-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
6-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
1-year Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
3-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
6-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
1-year Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
3-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
6-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
1-year Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
3-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
6-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
1-year Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
3-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
6-month Treasury	8.89	99.4	0.1	8.89	99.4	0.1	8.89	99.4	0.1
1-year Treasury	8.89	99.4	0.1						

INTERNATIONAL COMPANIES AND FINANCE

Three large US banks slide in first quarter

By Martin Dickson in New York

THREE OF the largest US banks yesterday reported first quarter falls in earnings, hit variously by the troubled real estate market, the slowing of domestic corporate finance activities and reduced interest income from problem Latin American loans.

Chase Manhattan, the third largest bank, saw first quarter net income tumble from \$130m to \$44m, with earnings per share down from \$1.27 to 20 cents.

Net income was hit by a \$75m increase in provision for credit losses, which the bank said was mainly due to the potential impact of the decline in the US commercial real estate market.

Net interest revenue was \$814m against \$829m a year ago, mainly reflecting lower interest payments from Brazil.

though this was largely offset by higher spreads and volumes on consumer banking assets.

The provision for possible credit losses was \$225m, compared with \$150m in the first quarter of 1989 and \$130m in the fourth quarter. The group warned that if economic conditions in domestic commercial real estate markets deteriorated further, it was likely that provisions for credit losses would continue at relatively high levels.

J.P. Morgan, the fourth largest US bank, saw a dip in underlying profits, although its consolidated net income rose to \$389m in the first quarter, compared to \$190m in the same period of 1989.

However, \$230m of the rise was due to an after-tax addition to income because of a change in accounting for trad-



Dennis Weatherstone pleased with strong trading results

ing swaps. Excluding this figure, income dropped from \$180m to \$169m and earnings per share were down from 96 cents to 86 cents.

The figures reflected the bank's strategy of moving from commercial bank lending to trading and fee-generating businesses. Non-interest revenue rose 17 per cent to \$460m as a sharp rise in foreign exchange and swaps trading revenues more than offset a decline in corporate finance fees and equity sales.

Net interest revenue fell 11 per cent to \$266m, primarily because the group received no interest on Brazilian medium and long-term loans in the quarter. Mr Dennis Weatherstone, the chairman, said the company was pleased with the strong trading results and continued growth of business activities with relatively steady revenue streams.

Manufacturers Hanover reported first quarter net income of \$96m, down from

\$100m in the first quarter of 1989, and net income per share of \$1.21 against \$1.84. Mr John McGillicuddy, the chairman, said that "net income from non-performing loans to major refinancing countries was \$12m less than in the previous year's quarter, masking earnings improvements in other areas of our business."

Net interest revenue was \$378m against \$378m, but non-performing loans to Brazil and Argentina, along with the Mexican debt restructuring agreement, cut \$72m off the figure against \$43m in 1989.

Non-interest revenue was \$328m compared to \$319m, with trading account profits up from \$23m to \$42m but loan syndication fees down from \$37m to \$11m. Charge-offs against problem domestic loans dropped from \$89m to \$73m.

Upjohn advances by 11% after restructuring loss

By Karen Zagor in New York

UPJOHN, the pharmaceutical company, yesterday reported an 11 per cent advance in first-quarter net income to \$114.3m or 59 cents a fully-diluted share, against net income of \$103m or 53 cents in 1989.

The company, which reported a sharp loss in the fourth quarter due to a one-time \$206m restructuring charge, said sales in the latest quarter increased 4 per cent to \$773m.

Operating income in the 1990 quarter grew 14 per cent to \$170m and amounted to 22 per cent of sales, compared with 20 per cent of sales the previous year.

Upjohn, which last year began phasing out its indus-

trial chemical business, said its pre-tax foreign exchange loss in the 1990 quarter was \$1.6m, compared with a gain of \$8.6m a year ago.

Mr Theodore Cooper, chairman and chief executive of the Kalamazoo, Michigan-based company, said: "Improvements in operating income and net earnings significantly exceeded the rate of sales growth as a result of cost-control measures instituted throughout 1989 and in the first quarter of 1990."

Upjohn's most successful products were Anacid, a non-steroidal anti-inflammatory agent; Rogaine, its anti-baldness drug; and Motrin IB, an internal analgesic which was introduced in June.

MGM/UA reports loss of \$9.8m

By Karen Zagor

MGM/UA, the Hollywood film and television studio which is the subject of a \$1.26bn tender offer by Pathé Communications, yesterday reported a net loss of \$9.8m or 19 cents a share for the second quarter of 1990, compared with a loss of \$14.7m or 29 cents a year earlier.

Revenues for the three months ended February 1990 declined to \$176.5m from \$241.8m.

For the first half, the company had a net loss of \$11.5m or 23 cents a share, against a net loss of \$44.2m or \$1.08 in 1989.

Results in the 1990 period include a gain of \$1.6m or 3 cents a share from the early retirement of debt.

Revenues in the latest period slipped to \$388.3m from \$412.2m.

MGM/UA, whose 1,000-title UA library includes the James Bond, Pink Panther and Rocky series, is being acquired by Mr Giancarlo Parretti, an Italian financier who last year took over Cannon Pictures and renamed it Pathé after the French studio he controls.

The closing of the deal is slated for April 30.

Fokker rise partly due to cut in financing charges

FOKKER, the Dutch aerospace group, has unveiled a sharp increase in profits for the year, largely because of decreased financing charges in 1989. The group lifted net profit in 1989 to F142.4m (\$23.5m) from F113.8m the previous year, agencies report.

The company said: "Fokker looks to the future with confidence, not least in view of the present order book of F110bn." The aircraft maker has come a long way since its hefty F1103m loss in 1987, when it was squeezed to the bone under the heavy financial burden of joint production of two new aircraft types, the Fokker 100 and the Fokker 50.

Now Fokker has F110bn in outstanding orders and its production facilities are booked until the end of 1994.

The company noted that its net profit picture for 1989 was considerably improved by a reduction in financing charges to F155m from F164m in the year before.

Fokker's participating interests in other companies also contributed higher revenues of F115.9m, compared with F18.6m last year.

Operations were F12.5bn, a core of around 36 per cent on the 1988 figure.

A Fokker representative said

Primerica up despite troubles on Wall Street

By Martin Dickson

PRIMERICA, the US financial services conglomerate, yesterday announced first quarter net income of \$83.2m, up from \$51.4m in the same period of 1989.

The figures, achieved despite the turmoil and poor trading environment on Wall Street, included first quarter net earnings of \$13.1m on revenues of \$384.4m from Smith Barney, the broking house.

Last year's earnings of \$11.4m came on revenues of \$284.6m.

Primerica said that Smith Barney's figures reflected good performance in most businesses, particularly retail brokerage, asset management and investment banking.

The group saw earnings per share rise 38 per cent to 73 cents a share, up from 53 cents a share, while revenues totalled \$1.44bn against \$1.24bn.

Mr Sandy Weill, the group's head, said his three principal businesses — consumer, investment and insurance services — had all performed well throughout the quarter, "demonstrating continuing improvement in our marketing and product development, as well as cost management."

Consumer finance net earnings rose 21 per cent to \$33m, attributed to continued growth in receivables and tight control of operating expenses.

Insurance services reported net earnings of \$63.2m, up from \$46.1m, while investment services produced earnings of \$18.1m, up from \$13.5m.

Donohue hit by hard discounting

DONOHUE, a Quebec forest products company controlled by Montreal publisher Mr Pierre Peladeau and British publisher Mr Robert Maxwell, felt the impact of price discounting in newspaper in the first quarter this year, writes Robert Gibbons.

Earnings for the three months ended March 31 were C\$10m (US\$6.8m) or 31 cents a share, down from C\$14.5m or 45 cents a year earlier, on sales of C\$168m against C\$165m.

Although Privatbank was making losses, half of its balance sheet was capital because it had not done any business, say banking sources. Finabank hopes to bring it back

Sommer Allibert slips after year of consolidation

By George Graham in Paris

SOMMER Allibert, the leading French plastic products group, has reported a 4 per cent drop in net profits last year to FF200m (\$37m), on sales 8 per cent higher at FF340bn.

Mr Marc Assa, chairman, said the group had spent the year consolidating its positions after several years of fast expansion. Profits had been reduced by around FF60m by the costs of starting up several new factories and of launching new products, especially carpet tiles.

The group had also had to restructure some of its recent acquisitions, which included Triangel in West Germany, Milliken Sommer in the US and Domco in Canada.

Sommer Allibert's main division, supplying plastic components and floor coverings principally to the motor industry, increased sales by 9 per cent to FF340bn. The group will open

a new West German factory in the second half of this year, giving it its first big link with motor company Volkswagen.

It has also formed a joint venture in Italy, which is expected to put it in a position to supply Fiat for the first time.

The group increased its sales of floor and wall coverings by 9 per cent to FF340bn, while the garden furniture and bathroom equipment division saw sales stagnate at FF14bn.

Sommer Allibert has set up a joint venture with Société Générale, the commercial bank, with capital of FF400m. The joint venture will take equity stakes in both companies as a defensive measure against possible takeovers.

While the joint venture's stake in Société Générale will be tiny, in Sommer Allibert it could represent around 5 per cent of the company's capital.

Finabank moves into Switzerland via takeover

By Jim Bodgener in Ankara

TURKEY'S Finabank, one of a new generation of small, aggressive institutions, has acquired a majority interest in FB Privatbank Geneva from FB Privatbank Zurich, following approval by the Swiss Federal Banking Commission.

This is the first Swiss bank purchase in Switzerland. The bank will now be called FB (Suisse).

The two-year-old Swiss bank is at present a moribund institution with a capital of around SF20m (\$13.5m).

Finabank now holds 82 per cent of the share capital, while the remainder has been acquired by BDL Banco di Lugano, a wholly-owned subsidiary of Union Bank of Switzerland.

Although Privatbank was making losses, half of its balance sheet was capital because it had not done any business, say banking sources. Finabank hopes to bring it back

into profit by the third quarter. The purpose of the deal is mainly to lock into Soviet and eastern bloc business, and give it participation in the Swiss market, where many Turkish concerns are established.

In addition, as the first Turkish bank with a presence in Switzerland, there are avenues for a correspondent relationship with nine other Turkish banks. And there is the boon for the bank's customers of anonymity under Swiss banking law.

Finabank is a commercial and merchant banking group established in Istanbul in 1987 by Mr Husnu Ozysgin, a well-known Turkish banker. The institution recently listed its shares on the Istanbul Stock Exchange, and 10 per cent of its capital is held by the UK insurance company Commercial Union, with which it has an insurance joint venture in Turkey.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Thursday, April 12, 1990. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

COUNTRY	EST	US \$	D-MARK	YEN	COUNTRY	EST	US \$	D-MARK	YEN	COUNTRY	EST	US \$	D-MARK	YEN
Algeria (Algeria)	99.25	60.4445	36.1237	38.2098	Algeria (Algeria)	99.25	60.4445	36.1237	38.2098	Algeria (Algeria)	99.25	60.4445	36.1237	38.2098
Algeria (Algeria)	99.25	60.4445	36.1237	38.2098	Algeria (Algeria)	99.25	60.4445	36.1237	38.2098	Algeria (Algeria)	99.25	60.4445	36.1237	38.2098
Algeria (Algeria)	99.25	60.4445	36.1237	38.2098	Algeria (Algeria)	99.25	60.4445	36.1237	38.2098	Algeria (Algeria)	99.25	60.4445	36.1237	38.2098
Algeria (Algeria)	99.25	60.4445	36.1237	38.2098	Algeria (Algeria)	99.25	60.4445	36.1237	38.2098	Algeria (Algeria)	99.25	60.4445	36.1237	38.2098
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Algeria (Algeria)	99.25	60.4445	36.1237	38.2098	Algeria (Algeria)	99.25	60.4445	36.1237	38.2098	Algeria (Algeria)	99.25	60.4445	36.1237	38.2098
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Algeria (Algeria)	99.25	60.4445	36.1237	38.2098	Algeria (Algeria)	99.25	60.4445	36.1237	38.2098	Algeria (Algeria)	99.25	60.4445	36.1237	38.2098
Algeria (Algeria)	99.25	60.4445	36.1237	38.2098	Algeria (Algeria)	99.25	60.4445	36.1237	38.2098	Algeria (Algeria)	99.25	60.4445	36.1237	38.2098
Algeria (Algeria)	99.25	60.4445	36.1237	38.2098	Algeria (Algeria)	99.25	60.4445	36.1237	38.2098	Algeria (Algeria)	99.25	60.4445	36.1237	38.2098
Algeria (Algeria)	99.25	60.4445	36.1237	38.2098	Algeria (Algeria)	99.25	60.4445	36.1237	38.2098	Algeria (Algeria)	99.25	60.4445	36.1237	38.2098
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Algeria (Algeria)	99.25	60.4445	36											

UK COMPANY NEWS

Axa and Hoyle ask for time to modify transaction

By David Owen

AXA MIDI Assurances and Sir James Goldsmith's Hoyle Investments consortium yesterday requested a continuance of no more than 60 days in deliberations in six US states on the bid for Farmers Insurance so that "modifications" can be made to the offer.

The applications for continuances will ask that records of proceedings remain open until the two groups submit their modifications for consideration. "We are simply asking for time to structure the transaction in a way that will meet regulatory approval," said Mr Claude Bebear, Axa chairman

and chief executive. Axa has been lined up by Hoyle as the purchaser of Los Angeles-based Farmers should Hoyle make a successful bid for its parent, BAT Industries.

However, Hoyle - having lapsed its initial offer - cannot currently rebid for BAT until this arrangement has won approval from nine state insurance departments. California, the first to rule, denied application from both Hoyle and Axa last week. Idaho is the next state expected to rule. The Illinois record is due to close on May 2.

According to Mr Bebear, "after close inspection of the California decision, we feel confident Axa can find solutions to the regulators' objections on the financing plan."

"California's ruling found that we are qualified to own Farmers," he added. "This is a major positive step in the right direction. We are dedicated to relentlessly pursuing our bid for Farmers within the regulatory process in the US."

Motions for continuance were filed in Illinois and Idaho yesterday. Similar applications are to be filed in Oregon, Washington and California.



Sir James Goldsmith

GrandMet completes sale of 356 Wimpy outlets

By David Owen

GRAND Metropolitan, the UK food and drinks group, has completed the sale of 356 Wimpy fast food restaurants to a management group for an undisclosed sum believed to be about £20m.

The company acquired the operations last year from United Biscuits. The outlets, which comprise 216 mainly franchised UK table service restaurants and 140 overseas units, are considered unsuitable for transfer into the Burger King operation acquired in the Pillsbury takeover in 1988.

GrandMet is retaining 160 counter service units which are already being converted to the Burger King brand.

Mr Max Wolfenden, head of the management group and Wimpy's former managing director, said that he would like to see the size of the Wimpy table service operation double in the next five years. This would entail investment of some £40m, primarily using franchisees' capital, he added.

The buyout was funded by a syndicate led by Al, the venture capital group.

Tate and Booker free of theme park exposure

By Clay Harris, Consumer Industries Editor

TATE & LYLE, the sweeteners group, and Booker, the diversified agribusiness company, say they have no financial exposure to Gold Rush City, a proposed Californian theme park, for which Tate & Lyle Enterprises, a subsidiary of their Booker Tate joint venture, may act as project manager.

"Neither Tate & Lyle nor Booker is intending to put any money into this theme park," Tate said.

Mr Jonathan Taylor, Booker's chief executive, agreed categorically in almost exactly the same words, adding Booker Tate to the list of parties which had no intention of investing in Gold Rush City.

Although Tate & Lyle Enterprises was committed to seek third-party finance for the venture, if it failed in this role, the only loss would be forgone fees, Tate added.

"This is a management job, not a banking job," it said.

Greenall may dispose of its breweries

By Bernard Simon in Toronto and David Owen in London

JOHN LABATT, the Canadian brewing and foods group, yesterday confirmed that it was in talks with Greenall Whitley regarding the acquisition of the brewing and hotels group's two breweries but said that no deal was imminent.

"There have been discussions going on, but there is no transaction to be announced," said a senior Labatt official in Canada. The two companies had been negotiating since 1987 but Greenall did not want to sell, he added.

The two groups have had links since reaching a production and distribution agreement for Labatt lager three years ago.

Greenall last week announced the sale of the marketing rights of Vladimir vodka - the vodka from Warminster - to Whyte & Mackay, the Scotch whisky distiller, for £33m.

Consumer downturn puts Gaynor in red

The marked downturn in consumer spending unravelled yet another casualty in Gaynor Group, which manufactures polythene bags, sheeting and slings.

The USM-quoted group incurred a loss of £557,000 in the half-year to end-February, against profits of £300,000 last time.

Directors of the Manchester-based group blamed the outcome on a "poor" operating performance, combined with a significant reduction in demand experienced by the high street chains, its main customers.

In addition, a sizeable contract for high density carrier bags proved to be "very unprofitable" and has ceased.

Turnover in the half-year under review dipped some 18 per cent to £2.51m (£4.53m). Losses per 10p share emerged at 7.4p, against earnings of 3.7p and there is no interim dividend (1.2p).

Appeal decision in Norton/BTR battle expected Thursday

By Karen Zagor in New York

A US APPEALS court decision is expected on Thursday in the takeover battle between BTR and Norton Company, the Massachusetts-based abrasives and ceramics manufacturer.

The two sides will file briefs today in Norton's appeal against a lower court ruling last Wednesday that the company must hold its annual meeting on April 26, rather than postpone it for two months as it had wished.

BTR, the UK industrial conglomerate, on Friday extended its \$1.64bn (£960m) offer for Norton until April 27.

The announcement came after 62.7 per cent of Norton's outstanding shares were tendered in response to BTR's bid of \$75 a share in cash. The offer had been conditional on a

two-thirds acceptance.

Shares in Norton fell \$0.75 to \$76 in early trading yesterday. Since BTR's court victory on April 11, they have risen by \$8.50, amid speculation that BTR might sweeten its offer. The company has said it sees no reason to raise its bid.

The Massachusetts legislature meets today, and is considering speedy passage of a bill which would limit the proportion of a company's board that could be elected in any one year to one-third.

The legislation has an emergency preamble, so it becomes effective once Mr Michael Dukakis, the Massachusetts governor, signs it.

Existing state law allows directors to reject an offer if there is concern that it might harm local communities.



A Norton Company employee protests against BTR's hostile takeover at a meeting held at Worcester, Massachusetts

EUROPEAN INVESTMENT LOCATIONS

The Financial Times proposes to publish this survey on:

5TH JUNE 1990

For a full editorial synopsis and advertisement details, please contact:

RACHEL FIDDMORE
on 01-873 4152

or write to her at:

Number One
Southwark Bridge
London
SE1 9HL

Chartered Trust drops to £22.5m

By Anthony Moreton, Welsh Correspondent

HIGH INTEREST rates which have seriously affected the profits of the finance houses have also taken their toll at Chartered Trust, the fully-owned subsidiary of Standard Chartered Bank.

Pre-tax profit for 1989 dropped 4.3 per cent from £23.5m to £22.5m.

Chartered Trust has, though, emerged from the year rather less severely mauled than some of its competitors. Merchantile Credit, the Barclays Bank offshoot, saw its profits tumble by almost half from £28m to £14m and Forward

Trust by a third from £80m to £26m.

With the Cardiff-based finance house experiencing "a significant and accelerating reduction in the rate of growth" in the last few months of 1989 and with interest rates likely to remain high throughout the year Chartered Trust, along with the other finance houses, looks like facing a difficult year.

Assets rose by 17.3 per cent to £1.5bn.

Mr Tony Webb, managing director, described the result as "remarkably good consider-

ing the conditions. With over 80 per cent of our lending at fixed rates and rising interest rates over the second half of last year we had a difficult year and the results show how well we managed the situation," he said.

Just over half of Chartered's assets come from its motor business but Mr Webb wants to see the personal finance side, which accounts for about 10 per cent, built up. "We would like to build this business because it is more remunerative and gives us greater opportunities for cross-selling," he stated.

RAND MINES

GOLD MINING COMPANY REPORTS

For the quarter ended 31st March 1990

Office of the Secretaries of the undermentioned companies in the United Kingdom: 40 Holborn Viaduct, London EC1P 1AJ

Harmony Gold Mining Company Limited

(Incorporated in the Republic of South Africa) Registration No. 58/282305
ISSUED CAPITAL R15 442 250 IN 30 884 500 SHARES

Quarter ended	31.12.1989	31.12.1988
Operating results		
Revenue (R)	2 889 000	2 889 000
Cost of production (R)	7 298	7 298
Profit (R) (net)	100 83	100 83
Cost (R) (net)	85 7	85 7
Profit (R) (net)	15 1	15 1
Operating results (R000's)		
Revenue	2 889 000	2 889 000
Cost	7 298	7 298
Profit	100 83	100 83
Cost	85 7	85 7
Profit	15 1	15 1
Profit before taxation and State's share of profit	20 517	20 517
Taxation and State's share of profit	3 272	3 272
Profit after taxation and State's share of profit	17 245	17 245
Dividend declared	15 948	15 948
Dividend paid	15 948	15 948

For and on behalf of the board:
M. A. WATSON (Managing Director) } Directors

10 April, 1990

Durban Roodepoort Deep, Limited

(Incorporated in the Republic of South Africa) Registration No. 01/002706
ISSUED CAPITAL R2 325 000 IN 46 833 333 SHARES

Quarter ended	31.12.1989	31.12.1988
Operating results		
Revenue (R)	544 000	544 000
Cost of production (R)	100 83	100 83
Profit (R) (net)	15 1	15 1
Cost (R) (net)	85 7	85 7
Profit (R) (net)	15 1	15 1
Operating results (R000's)		
Revenue	544 000	544 000
Cost	100 83	100 83
Profit	15 1	15 1
Cost	85 7	85 7
Profit	15 1	15 1
Profit before taxation and State's share of profit	20 517	20 517
Taxation and State's share of profit	3 272	3 272
Profit after taxation and State's share of profit	17 245	17 245
Dividend declared	15 948	15 948
Dividend paid	15 948	15 948

For and on behalf of the board:
M. A. WATSON (Managing Director) } Directors

10 April, 1990

East Rand Proprietary Mines, Limited

(Incorporated in the Republic of South Africa) Registration No. 01/002706
ISSUED CAPITAL R15 442 250 IN 30 884 500 SHARES

Quarter ended	31.12.1989	31.12.1988
Operating results		
Revenue (R)	2 889 000	2 889 000
Cost of production (R)	7 298	7 298
Profit (R) (net)	100 83	100 83
Cost (R) (net)	85 7	85 7
Profit (R) (net)	15 1	15 1
Operating results (R000's)		
Revenue	2 889 000	2 889 000
Cost	7 298	7 298
Profit	100 83	100 83
Cost	85 7	85 7
Profit	15 1	15 1
Profit before taxation and State's share of profit	20 517	20 517
Taxation and State's share of profit	3 272	3 272
Profit after taxation and State's share of profit	17 245	17 245
Dividend declared	15 948	15 948
Dividend paid	15 948	15 948

For and on behalf of the board:
M. A. WATSON (Managing Director) } Directors

10 April, 1990

Blyvooruitzicht Gold Mining Company, Limited

(Incorporated in the Republic of South Africa) Registration No. 01/002706
ISSUED CAPITAL R2 325 000 IN 46 833 333 SHARES

Quarter ended	31.12.1989	31.12.1988
Operating results		
Revenue (R)	544 000	544 000
Cost of production (R)	100 83	100 83
Profit (R) (net)	15 1	15 1
Cost (R) (net)	85 7	85 7
Profit (R) (net)	15 1	15 1
Operating results (R000's)		
Revenue	544 000	544 000
Cost	100 83	100 83
Profit	15 1	15 1
Cost	85 7	85 7
Profit	15 1	15 1
Profit before taxation and State's share of profit	20 517	20 517
Taxation and State's share of profit	3 272	3 272
Profit after taxation and State's share of profit	17 245	17 245
Dividend declared	15 948	15 948
Dividend paid	15 948	15 948

For and on behalf of the board:
M. A. WATSON (Managing Director) } Directors

10 April, 1990

Quarter	Kilograms of gold sold	Average realisable price per kilogram
1989 - 2nd	248	R28 798
1989 - 3rd	271	R28 798
1989 - 4th	271	R28 798

For and on behalf of the board:
R. VOG (Managing Director) } Directors

10 April, 1990

RAND MINES. BREAKING NEW GROUND EVERY DAY.

Scandinavisk Finance B.V.
(Incorporated in the Netherlands with limited liability)
U.S.\$60,000,000
Floating rate serial notes due 1993
Guaranteed on a subordinated basis by Scandinavisk Bank Group plc
(Incorporated in England with limited liability)
For the six months 17 April 1990 to 17 October 1990. The rate of interest has been fixed at 8 1/4 per cent on the interest payable on the relevant interest payment date, 17 October 1990 against Coupon No. 15 will be US\$270.69 per note.
Agent: Morgan Guaranty Trust Company
JPMorgan

HMC MORTGAGE NOTES 3 PLC
Class A
£1,500,000
Class B
£1,500,000
Mortgage Backed Floating Rate Notes Due July 2015
For the interest period 12th April, 1990 to 12th July, 1990 the rate of interest has been fixed at 15.875% per annum. Interest payable on 12th July, 1990 will amount to £2,850.00 per £100,000 Notes.
The Class B Notes will bear interest at 15 1/4% per annum. Interest payable on 12th July, 1990 will amount to £2,850.00 per £100,000 principal amount.
Agent: Morgan Guaranty Trust Company of New York
London

Citicorp Overseas Finance Corporation N.V.
(Incorporated with limited liability in the Netherlands Antilles)
Unconditionally guaranteed by CITICORP
Notice is hereby given that the Rate of Interest has been fixed at 8.375% and that the interest payable on the relevant Interest Payment Date, July 17, 1990, against Coupon No. 41 in respect of US\$10,000 nominal of the Notes will be US\$211.70.
April 17, 1990, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

U.S. \$100,000,000 Republic New York Corporation
Floating Rate Subordinated Notes due July 2010
Notice is hereby given that for the period from April 17, 1990 to July 17, 1990 the rate of interest payable on the relevant interest payment date, July 17, 1990, will be 8.5625% per annum. The interest payable on the relevant interest payment date, July 17, 1990, against Coupon No. 21 in respect of U.S. \$10,000 nominal of the Notes will be US\$216.44.
By: The Citicorp Bank, N.A. (CSSI Dept.), Agent Bank
April 17, 1990

BRADFORD & BINGLEY
£200,000,000
Floating rate notes due 1999.
Initial Tranche \$150,000,000
Notice is hereby given that the notes will bear interest at 15 1/4% per annum from 12th April, 1990 to 12th July, 1990. Interest payable on 12th July, 1990 will amount to \$381.75 per \$10,000 note.
Agent: Morgan Guaranty Trust Company
JPMorgan

U.S. \$300,000,000 Province de Québec
Floating Rate Notes Due 2001
Interest Rate 8 1/4% per annum
Interest Period 17th April 1990 to 17th October 1990
Interest Amount per U.S. \$5,000 Note due 17th October 1990 U.S. \$220.81
Credit Suisse First Boston Limited Agent Bank

U.S. \$75,000,000 The Bank of New York Overseas Finance N.V.
(Incorporated with limited liability in the Netherlands Antilles)
Guaranteed Floating Rate Subordinated Notes due January 1996
Unconditionally guaranteed, on a Subordinated Basis, as to Payment of Principal and Interest by The Bank of New York Company, Inc. (Incorporated in New York, USA)
Notice is hereby given that the Rate of Interest has been fixed at 8.5625% p.a. and that the interest payable on the relevant Interest Payment Date, July 17, 1990, against Coupon No. 21 in respect of U.S. \$10,000 nominal of the Notes will be U.S. \$216.44.
April 17, 1990, London
By: Citibank, N.A. (CSSI Dept.), Reference Agent CITIBANK

Citicorp Banking Corporation U.S. \$250,000,000
Guaranteed Floating Rate Subordinated Capital Notes Due July 10, 1997
Unconditionally Guaranteed on a Subordinated Basis by CITICORP
Notice is hereby given that the Rate of Interest has been fixed at 8.5625% p.a. and that the interest payable on the relevant Interest Payment Date, July 17, 1990, against Coupon No. 21 in respect of US\$10,000 nominal of the Notes will be US\$216.44.
April 17, 1990, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

U.S. \$100,000,000 B.B.L. International N.V.
Floating Rate Notes Due 1999
Guaranteed on a Subordinated Basis as to payment of principal and interest by BBL
Banque Bruxelles Lambert S.A./ Bank Brussel Lambert N.V.
Interest Rate 8 1/4% per annum
Interest Period 17th April 1990 to 17th October 1990
Interest Amount per U.S. \$5,000 Note due 17th October 1990 U.S. \$220.81
Credit Suisse First Boston Limited Agent Bank

U.S. \$75,000,000 The Bank of New York Overseas Finance N.V.
(Incorporated with limited liability in the Netherlands Antilles)
Guaranteed Floating Rate Subordinated Notes due January 1996
Unconditionally guaranteed, on a Subordinated Basis, as to Payment of Principal and Interest by The Bank of New York Company, Inc. (Incorporated in New York, USA)
Notice is hereby given that the Rate of Interest has been fixed at 8.5625% p.a. and that the interest payable on the relevant Interest Payment Date, July 17, 1990, against Coupon No. 21 in respect of U.S. \$10,000 nominal of the Notes will be U.S. \$216.44.
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UK COMPANY NEWS

Shandwick wins Northern Ireland IDB account

By Alice Rawsthorn

SHANDWICK, the world's largest public relations consultancy, has been appointed by the Industrial Development Board of Northern Ireland to handle its international public relations programme.

The IDB account, which will be worth £3.5m in fee income to Shandwick in the first year alone, is thought to be one of the biggest international PR accounts.

Until recently public relations programmes, unlike advertising campaigns, have tended to be small in scale and to be limited to local markets.

A typical account is probably worth less than £50,000 a year in fees for the consultancy.

In the past year a number of private and public sector organisations have developed international strategies for public relations. This development has been accompanied by

a parallel trend for some organisations to commit larger budgets to public relations.

The IDB account, which is intended to attract inward investment from overseas companies into Northern Ireland, is typical of this new breed of international PR programmes.

Mr Tony Hopkins, chief executive of the IDB, said it had chosen to concentrate its marketing budget on PR, rather than advertising, because it was offering "such a complex product" which involved companies making "very important strategic decisions".

Shandwick won the IDB account after a competitive pitch against four other consultancies including Burson-Marsteller - the PR division of Young & Rubicam, the private-sector US market research group - which has handled the account for four years.

The other consultancies

were Hill & Knowlton, part of the London-based WPP marketing group, and the public relations arms of Grey and Lintas, the US advertising agencies.

Shandwick will handle the account through its subsidiaries in the US, Europe and in the Asia Pacific region including Japan. Burson-Marsteller will continue to work on the account in South Korea.

In recent years Shandwick has expanded rapidly by staging a series of acquisitions. It has assembled an international network of PR consultancies by buying businesses across Europe, North America and the Pacific basin.

A few weeks ago Shandwick was cited as the world's largest PR consultancy - ahead of Burson-Marsteller and Hill & Knowlton - by O'Dwyer's Directory in the US. Earlier this month it announced a 30 per cent increase in pre-tax profits to £7.3m on turnover of £72m for the six months to September 31.

Mr Anthony Stoddard, group managing director, said Shandwick would not have been able to win the IDB account had it not established an international network. He said the account would have an international strategy but would be executed on a local basis.

IMI in £9.25m expansion

By Nikki Tait

IMI, the UK metals group which specialises in building products, drinks dispensing equipment and fluid power, has acquired MKK Group from Charter Consolidated for £9.25m payable in cash.

MKK designs, manufactures and sells products to the catering and hotel trades - including optic and non-drip spirit measures. It has annual sales of around £18m.

Toye improves

Toye & Company, the manufacturer of uniforms, medals and associated regalia, reported a 32 per cent expansion to £890,493 in taxable profits for 1989. Turnover totalled £11.65m (£9.18m). The dividend for the year is raised 1p to 8p.

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NEWS DIGEST

Second tranche for Wisley Golf

FOLLOWING the success of the first offer for sale of units in the Wisley Golf Club, James Capel is to offer a second tranche of a further 125 units with a value of some £4m.

The initial issue of 100 units at £26,275 was oversubscribed. The price for the second issue has been set at £31,800 per unit (£30,000 a share, £1,000 a debenture plus stamp duty and VAT). Subject to committee approval, purchase of a unit affords membership for the shareholder or a nominee.

Cambridge Isotope tumbles to \$0.37m

Pre-tax profits dived to \$366,838 (£223,000) at Cambridge Isotope

Laboratories, the Massachusetts-based producer of stable isotopes, for the year to November 30 1989. The previous figure was \$1.06m.

Although turnover rose to \$6.65m (\$5.58m), interest income fell from \$68,581 to \$13,318 and there was a \$162,225 (nil) plant start-up cost.

VTR records 16% growth to £601,000

VTR, the USM-quoted video editing and audio-visual house, reported a 16 per cent growth to £601,000 in interim profits.

The outcome before tax for the six months to February 28, compared with profits of £520,000 last time and came from turnover ahead some 43 per cent to £2.71m (£1.9m).

An interim dividend of 1p (1p) is payable from earnings of 5p (4.8p) per 5p share.

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CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Sterling's large political factor

Sterling has a fragile look. It has failed to gain advantage from the weakening of the yen and has lost ground against the D-Mark in spite of inflationary worries about German monetary union.

Since the end of February the pound has climbed to Y260 from Y251.50; over the same period it has fallen to DM2.7475 from DM2.8675. Sterling

UK clearing bank lending rate
15 per cent
from October 5

has also lost some 5 cents against the dollar since the end of February and the exchange rate index has fallen from 90.0 to 87.0.

Political events will decide whether the pound weakens further. The foreign exchange market does not like to see the recent political uncertainty in the UK. It now is the considerable task of the ruling

Conservative Party to prove that the fabric of British society is not wearing thin and that there is still time to turn unfavourable opinion polls in its favour by the next general election, due in 1992 at latest.

The Government is only likely to raise bank base rates if sterling comes under severe pressure but, equally, there is unlikely to be a cut until the latter part of this year.

In this uncertain world, there is an obvious danger that UK rates might be moving down at a time when US and German rates are going up, and the best hope for sterling is that the political situation is by then moving in favour of the Government.

Political risk has been a large factor in the pound's recent fall and if the market sees that lower interest rates are increasing the Conservative's popularity, sterling could still benefit, despite lower rates.

£ IN NEW YORK

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

STERLING INDEX

Apr. 12	Close	Previous
8.30 am	87.1	87.0
10.00 am	87.1	87.0
11.00 am	87.1	87.0
12.00 pm	87.1	87.0
1.00 pm	87.1	87.0
2.00 pm	87.1	87.0
3.00 pm	87.1	87.0
4.00 pm	87.1	87.0

CURRENCY MOVEMENTS

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

CURRENCY RATES

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

CHICAGO

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

NEW YORK

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

LONDON

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

PARIS

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

FRANKFURT

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

ZURICH

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

STOCKS

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

POUND SPOT-FORWARD AGAINST THE POUND

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

DOLLAR SPOT-FORWARD AGAINST THE DOLLAR

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

EXCHANGE CROSS RATES

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

EURO CURRENCY INTEREST RATES

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

FT LONDON INTERBANK FIXING

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

MONEY RATES

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

LONDON MONEY RATES

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

FT-ACTUARIES WORLD INDICES

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

NATIONAL AND REGIONAL MARKETS

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

LONDON RECENT ISSUES

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

FIXED INTEREST STOCKS

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

RIGHTS OFFERS

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

BANK OF ENGLAND TREASURY BILL TENDER

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

WEEKLY CHANGE IN WORLD INTEREST RATES

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

NEW YORK

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

PLATINUM 500 TROY OZ. \$/TROY OZ.

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

SILVER 5,000 TROY OZ. \$/TROY OZ.

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

HIGH GRADE COPPER 25,000 LBS. \$/CWT

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

CRUDE OIL (Ligh 42,000 US gals \$/barrel)

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

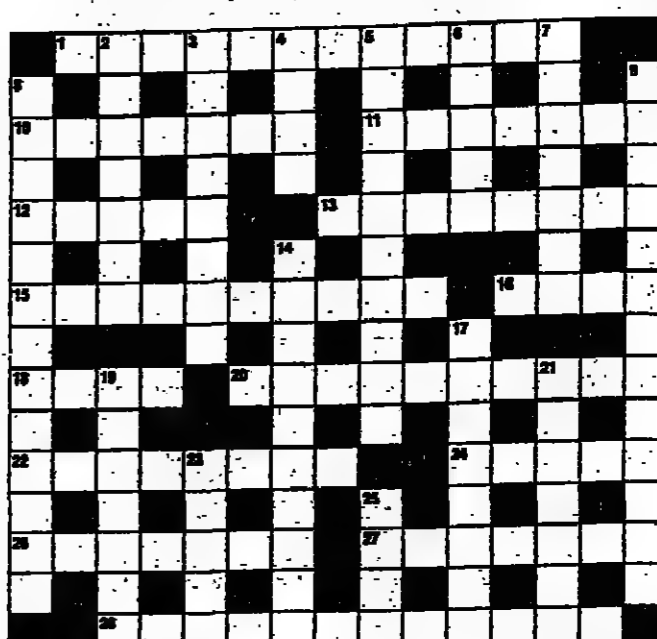
HEATING OIL 42,000 US gals. \$/barrel

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

CROSSWORD

No. 7,215 Set by FRESKA



- 1 Chairman wallowing in drink? (3,9)
10 Commercial vehicle obtained on church loan (7)
11 Shifty Tom, Ted and I skipped (7)
12 Old Salisbury - it has spirit (5)
13 Grant - local tea distributor (8)
14 Main scientific pursuit? (10)
15 King and fool draw together (4)
16 Steady company (6)
17 Bricks that go further (10)
18 Frenchman's bizarre theory about an electrical instrument (8)
19 "He lived in the ... of having discovered ..." (S.C. Bentley) (5)
20 Back runner that fails to start? Confirmed (7)
21 One who terrorises funeral characters? (8)
22 Rare settlement? (8,4)
23 Counter-productive commercial jingle? (4)
24 The solution to last Saturday's prize puzzle will be published with names of winners on Saturday April 28.

FRED SCANLAN: This is the last puzzle compiled for the FT by Fred Scanlan, who died recently, aged 68. He contributed puzzles to the Guardian, as Alan, for many years, and had been setting for the FT, as Freska, for the past three years.

JOTTER PAD

WORLD COMMODITIES PRICES

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

SUGAR WORLD "11" 112,000 LBS. \$/CWT

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

COTTON 50,000 LBS. \$/CWT

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

ORANGE JUICE 15,000 LBS. \$/CWT

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

LIVE CATTLE 40,000 LBS. \$/CWT

Apr. 12	Close	Previous
1 month	1.6410-1.6420	1.6420-1.6440
3 months	1.6410-1.6420	1.6420-1.6440
12 months	1.6410-1.6420	1.6420-1.6440

Forward premiums and discounts apply to the US dollar

LIVE HOGS 30,000 LBS. \$/CWT

**fect luxury holiday in the
EEKEND FT.**

FINANCIAL TIMES SURVEY



Economic stagnation, immigration from the Soviet Union and the Intifada are the issues confronting

Israel as it enters the 1990s. But a protracted domestic political crisis is delaying a coherent government response to the problems.

Hugh Carnegie investigates

In search of a direction

ISRAEL found itself at the start of the 1990s facing challenges which are considerable even by the standards of its turbulent 42-year history. But it also found itself embroiled in a debilitating and distracting government crisis.

A surge of immigration by Jews from the Soviet Union and a US-brokered offer of unprecedented peace talks with the Palestinians held out the prospect of a change of direction. This came after a sour end to the 1980s marked by economic stagnation and the Intifada, the violent Palestinian revolt against Israeli rule in the West Bank and Gaza Strip, now in its 29th month.

The outlook was obscured by a domestic political wrangle which led to the collapse in March of a "National Unity Government" which comprised the mainstream Likud and Labour parties and led since the 1988 general election by Mr Yitzhak Shamir, the Likud leader. The two parties, always reluctant partners, parted over Mr Shamir's refusal to accept Washington's terms for the proposed peace talks.

More than a month later, the shape of a new Government — and with it any clear set of policies to deal with the out-

standing issues facing the country — has still to emerge. A week ago, Mr Shimon Peres, the Labour party leader, was forced to abort an attempt to install a Labour-led administration, without Likud, that was committed to accepting the US peace talks proposal. He failed because two members of the Knesset (parliament) from an ultra-orthodox religious party, whose votes he relied on for a majority of 61 in the 120-seat house, abandoned him at the last moment.

At the time of writing, Mr Peres was still trying to reconstruct a majority. But this seemed a diminishing prospect. Mr Shamir and Likud were again hard at work to prevent his moves and perhaps build their own narrow coalition. The resurrection of a broad coalition, which first came into existence under Mr Peres in 1984, was also mooted.

Public frustration at the way in which government had fallen victim to feverish political intrigue was expressed in growing calls — backed by President Chaim Herzog — for electoral reform. More than 150,000 people demonstrated in Tel Aviv for an end to the extreme form of proportional representation that leaves the formation of governments at

the mercy of small factions such as the religious parties.

Regardless of political affiliation, there is a strong belief among many Israelis that the system is preventing coherent responses to the leading policy issues of the day. The most dramatic of these, as far as Israelis are concerned, is the tide of Soviet emigrants that is set to become one of the largest influxes of Jews to Israel. It is a development of great potential consequence for both Israel and its Arab neighbours.

The numbers began to mount sharply in the autumn of 1989. A combination of easier emigration rules, growing Soviet instability and tougher US entry regulations made thousands of Soviet Jews decide to take advantage of Israel's Law of Return, which enshrines the state's fundamental purpose of providing a home for all Jews.

By March this year, Soviet "aliyah" (immigration) had reached more than 7,000 a month. If there are no interruptions, officials expect 100,000 this year. Estimates of the eventual influx range as high as 1m.

The influx is widely seen as a fillip to a country where great importance attaches to the size of the population. Instead of worrying about recent persistent emigration by young Israelis, officials now talk about achieving demographic "critical mass".

However, absorbing such great numbers successfully into a recently moribund economy will require considerable

skill by the Government. The newcomers should provide an engine for growth that has been lacking in the last two years. But the cost of absorbing them in the initial period threatens to blot Government deficits which were already on an upward trend, pushing up borrowing levels and compounding inflation which topped 50 per cent last year.

There is strong concern among economists that the immigrants should be absorbed in the longer term by the private sector to avoid a regression in efforts to slim down the Government's role in the economy. But unemployment, at almost 9 per cent, is at a 20-year high and the private sector has recently been complaining about low profitability.

The migration has evoked a furious response in the Arab world, bringing appeals to Moscow and Washington from Palestinian and Arab leaders for it to be curbed. The chief concern is that large numbers of Soviet immigrants will join the 80,000 Jewish settlers living in the territories occupied in the 1967 Six Day War.

The Soviet Union, US and the EC have warned Israel against this. Just before the Shamir government fell, there was a sharp exchange between

Israel and the US on the issue. President George Bush said the immigrants should not be settled in areas of Jerusalem captured by Israel and annexed after 1967. Israel refuses to heed the latter call, insisting, against general international acceptance, on Israeli sovereignty over all Jerusalem. On the rest of the occupied territories, the old government said Soviet immigrants were free to go where they liked.

This has not placated Arab leaders whose concerns run deeper than just the settlement of the West Bank and Gaza. They are worried that the influx will tip the area's demographic balance against the Palestinians. Arabs make up about 2.5m of the combined population of Israel and the occupied territories, while Jews account for about 3.7m.

The Arab fear is that a sudden rise in the Jewish population will be at the expense of the Palestinians which will end the independent state as a more populous Israel loses its incentive to make territorial concessions. Arab concerns have also been exacerbated by the way eastern European countries, hitherto anti-Israel, have rushed to restore relations with Israel, cut off in line with Moscow after the 1967 war.

These developments have served to stoke up the deep tensions that still exist between Israel and most of its Arab neighbours — Egypt is the only Arab nation to have made peace with Israel. The level of arms build-up in the region was illustrated by President Saddam Hussein's declaration that Iraq possessed advanced chemical weapons and would destroy half of Israel in the event of an Israeli attack on Iraq. Israel, widely credited with large nuclear and chemical arsenals, views Iraq's drive to develop non-conventional strategic weaponry with concern.

The response of the Likud-led right to these developments is to see them as reinforcing the case for Israel to be strong and unyielding, especially when it comes to territorial concessions in the occupied territories. On the Labour side, they are seen as reasons to seek a settlement with the Palestinians which will end the conflict in the Arab territories, lower the tensions in the region and allow Israel to concentrate on absorbing the Soviet newcomers without unwanted distractions.

The Intifada has lost some of its intensity in the two years since it began. However, from



Meeting of minds: armed border guard confronts an Arab mother in Jerusalem

ISRAEL

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Unemployment



the Israeli perspective it still ties up heavy and expensive army commitments, is a drag on the economy and sours Israel's international relations. Labour accepts as a starting point a proposal put forward by Mr James Baker, the US Secretary of State, for talks in Cairo between Palestinian and Israeli delegations. This was in turn based on an Israeli peace plan advanced in May 1989 by Mr Shamir which, among other elements, proposed holding elections in the West Bank and Gaza leading to limited Palestinian self-government, followed at a later stage by talks on a final settlement.

Mr Shamir and Likud backed off their plan, precipitating the end of the Likud-Labour coalition, because they believed the

formulation of the Palestinian Liberation Organisation a clear, if indirect, role in the negotiations which Likud was against. Likud objected to the inclusion in the process of Arabs living in Jerusalem.

What prospects there are for reviving the US proposal depends to a large extent on the composition of the new Israeli Government. But even if the stage of elections in the occupied territories is reached, the later stage of negotiating a final settlement remains fraught with difficulties as even Labour's willingness to exchange some land for peace falls far short of the PLO minimum demand for a fully independent Palestinian state in the West Bank and Gaza.

KEY FACTS

Area	20,325 sq km
Population (million)	4.551
Head of State	Chaim Herzog
Currency	NIS 1 = 100 agorot
Average Exch Rate	1.92 Shekel/\$

ECONOMY	Average		
	1979-89	1988	1989
Total GDP (US \$m)		41,878	42,283
Real GDP growth	3.0%	1.8%	1.1%
Current account balance		-578	1,000
Current acct bal as % of GDP		-1.6	2.4
Exports incl. non-factor svcs		11,015	10,900
Imports incl. non-factor svcs		13,159	12,700
Trade Balance		-3,144	-1,800
Total Debt		25,100	24,300
Debt as % of GDP		59.9	57.5
Inflation	128%	18.3%	20.2%

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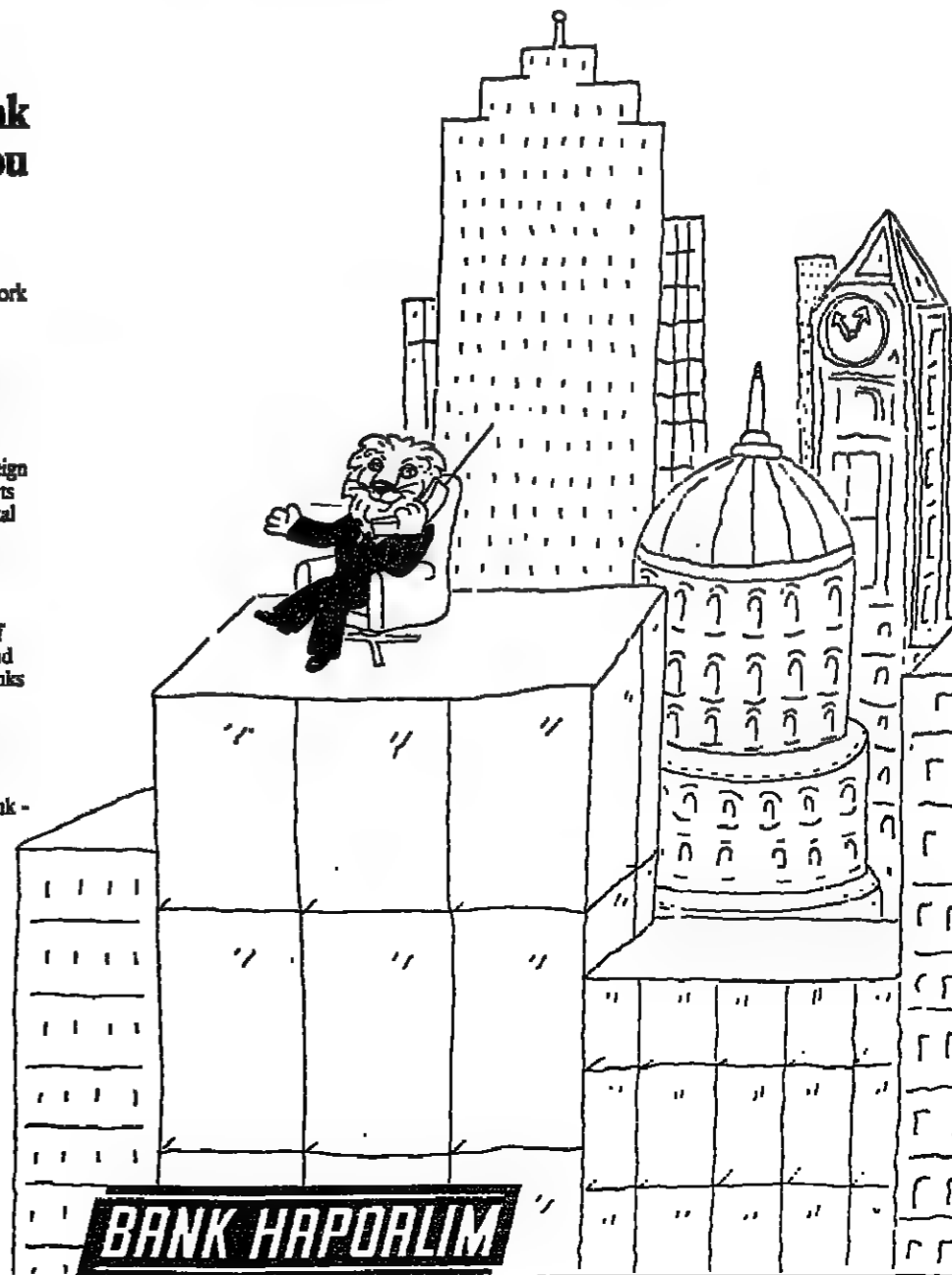
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ISRAEL 2

The political system is a vulnerable one, argues Eric Silver

A proliferation of parties

ISRAEL MUST be the only country in the world which has a word for a politician who sells his vote to the enemy at a moment of crisis. It is "Kalanterism", named after an otherwise forgotten Jerusalem city councillor, Rahamin Kalanter, who deserted the National Religious Party in 1955 and thus kept the governing coalition in office.

The phenomenon is not unknown elsewhere, but the Israeli political system is particularly vulnerable. The 120 members of the national parliament, the Knesset, are elected under the most extreme form of proportional representation.

The entire country is treated as a single constituency. The voters are presented with party lists. They vote for a party, but cannot influence the choice of candidates. The threshold of votes necessary to win representation is a low 1 per cent of the total.

The system encourages a proliferation of parties. The 1988 general election returned 15 to the Knesset. They included four religious parties, with a total of 18 seats, as well as three predominantly Arab parties (including the Communists) with a total of six. There were three parties with a total of seven seats to the right of Likud - the mainstream party of the right - and three with 10 to the left of Labour - the mainstream leftist group.

It was the third successive election to produce a stalemate between Likud and Labour (40 and 39 seats respectively), as well as one between the two



Shimon Peres (left) tried to form a coalition after Yitzhak Shamir, lost a no-confidence vote



ideological blocks of right and left, defined in terms of their attitude to the important question of a compromise peace with the Palestinians. This gave the smaller parties, especially the religious parties, maximum leverage.

By this spring, when Mr Shimon Peres, the Labour leader, tried to form a new coalition after his Likud rival, Mr Yitzhak Shamir, lost a no-confidence vote, there were 17 parties or factions to contend with. A block of five disaffected Liberals had broken away from the Likud, into which their party had merged with a series of trial marriages between 1969 and 1989, and Mr Charlie Biton, a North African-born inner-city activist, had left the Communist Democratic Front.

Mr Peres's attempt to buy

over a Likud deserter provoked a grassroots campaign for electoral reform comparable in scale with the protest movement that followed the 1973 Yom Kippur War, when the nation felt let down by its leaders, and the 1982 invasion of Lebanon, when hundreds of thousands demonstrated to force an inquiry into the Sabra and Chatila massacre of Palestinian refugees by Israel's Christian allies.

Electoral reform had been on the national agenda for at least two decades. David Ben-Gurion, the first Prime Minister, regretted introducing proportional representation and favoured a British-style constituency system.

More recently, bills were presented for a mixed system of multi-member constituencies (electing a total of 80 MPs)

and proportional representation (electing the remaining 40).

The mixed system was designed to encourage small parties to combine, while offering representation to communities and interest groups who would feel excluded from democratic politics under a pure constituency system.

Leading reformers acknowledge that the religious parties, with their vested interest in the old system, retain a veto on this legislation, at least for the rest of the present parliament. Neither of the leading parties will risk alienating them.

The reform campaign has therefore turned to a more widely acceptable alternative, direct election of the Prime Minister, while retaining proportional representation for MPs. They find encouragement

in the precedent of directly elected mayors, even when local communities are as divided as the nation as a whole.

"The mayor forms his coalition in a matter of days," says Professor Amnon Rubinstein, a former Justice Minister and dean of the Tel Aviv University law school, who leads the centrist Shinui party. "He doesn't have to resort to bribery to secure office. He is the mayor de facto. He invites prospective partners to serve under him. They do."

Prof Rubinstein argues that fears of an elected dictator are misconceived. Under his proposal, the Knesset would retain the right to dismiss a Prime Minister, but that would entail a dissolution and new elections.

The authority of a directly-elected Prime Minister, as well as a reluctance to go too often to the polls, would make for greater stability.

He contends that direct elections would encourage the parties to choose moderate, rather than extremist, candidates for Prime Minister. "When 51 per cent of the people have to vote for somebody," he said, "you go for a candidate who is middle of the road. Likud, for instance, would have to put up a candidate who is acceptable to some on the left."

A strongman such as Mr Ariel Sharon, who stepped down from Mr Shamir's cabinet to crusade against the Israeli peace initiative, would have less chance of winning power under the proposed reform than under the old system, Prof Rubinstein argues.

As things are now, Sharon only needs the votes of Likud central committee members, which he might well get. For direct elections he would have to appeal to the people who waver.

THE ECONOMIC OUTLOOK

Tide of immigrants may ease doldrums

THE SUDDEN influx of Jewish immigrants from the Soviet Union has galvanised discussion about Israel's economic performance perhaps more than any other aspect of the nation's affairs.

Until the last few months of 1989, economists and policymakers fretted over the near-stagnation that has dogged the economy for some two years; the stubborn persistence of inflation, the rise in unemployment, the depressingly low rates of investment.

Then the tide of "aliyah" (ascension) from the Soviet Union began to flow and with it came the realization that the arrival of hundreds of thousands of immigrants over the next few years in a country of only 4.5m people would have a profound and challenging impact on an economy languishing in the doldrums.

It is an almost unchallenged tenet of Zionist faith that the long-term benefits in growth and prosperity stemming from big increases of immigration far outweigh the short-term problems of absorption. Certainly, inflows such as the doubling of the population in the five years following the foundation of the state in 1948 helped produce annual growth rates which averaged more than 8 per cent up to 1972.

Since then average annual gross national product growth has slumped to less than 3 per cent and last year it was less than half that. Factors other than immigration have, of course, had much to do with these trends. But there is a strong belief in Israel that the Soviet newcomers bring with them the potential for economic revitalisation.

The problem with this optimistic view is that it assumes a lot about the ability of a presently sickly economy to absorb the influx in the initial period without becoming unworkable. In 1989 the economy slipped further into the stagnation that set in the previous year.

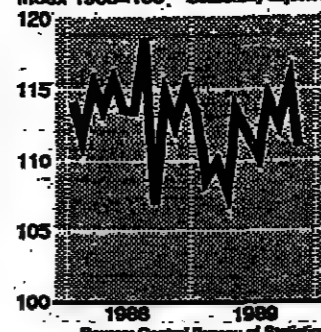
In both years, there was a direct negative impact from the Palestinian uprising in the Occupied Territories, an important market, of 1 per cent of gross domestic product. But it also seemed that demand and production had been belatedly hit by a 1988 austerity plan which successfully curbed three-digit inflation and mounting state deficits and which was intended to set Israel on a path to a more market-oriented economy.

Industrial news was dominated by severe debt crises in the Kibbutzim collective movement and at trade union-owned Koor Industries, the biggest industrial group. Last year, industrial output fell by 2 per cent or more, and unemployment rose to a 20-year high of 9 per cent.

There was a balance of payments surplus of \$700m and a significant drop in the trade deficit, to \$3.9bn, thanks in part to a 5 per cent rise in exports. But the improved

Industrial production

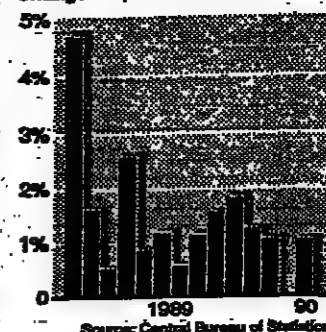
Index 1983=100. Seasonally adjusted



Source: Central Bureau of Statistics

Consumer price index

Change on previous month



Source: Central Bureau of Statistics

external account was also due to the effect on imports of depressed consumption. Yet was spelled out by a Bank Hapoalim study of the economic impact of immigration. It said that just to prevent a further rise in the jobless, employment would have to rise at a rate of 4 per cent a year, compared with the average over the past decade of 1.6 per cent.

Officials are looking to the private sector to provide the solution. They are hopeful that the high proportion of high educational and professional qualifications among the Soviet newcomers, coupled with their apparent willingness to adapt to different occupations, will help. But there is strong concern in the private sector that recent Government policy has been counter to encouraging employment.

The Finance Ministry and Bank of Israel have more or less been in agreement over keeping up the level of the shekel as the main instrument against inflation.

At the same time, the Bank of Israel has brought great pressure on the commercial banks to lower interest rates to try to stimulate growth. Efforts have been made, though with only limited success, to keep down wage levels in a system where the Histadrut trade union federation wields great power.

Critics say these policies - especially exchange rate policy - are not working and are exacting too high a price in terms of unemployment. Even before the Soviet immigration began, it was argued that the nature of Israel, with its big defence needs and its commitment to provide a livelihood for all Jews who wished to live in it, meant it could not afford the recent jobless rates experienced by western European countries. Annual emigration of up to 20,000 is a deep worry.

The critics argue that the shekel should be devalued in line with inflation to enhance export profitability. "The main element in all this is to have the right exchange rate to help the real economy to create investment and economic growth," says Mr Moshe Sarban, chairman of Bank Leumi and former Bank of Israel governor. "And - economic growth must be led by exports, because of the small domestic market."

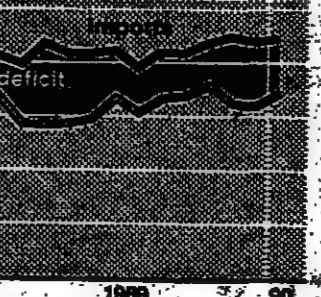
Mr Sarban's complete prescription is to accompany a floating exchange rate with much more rapid liberalisation of the economy, reducing the Government's role and adopting specific policies such as the removal of import and foreign exchange restrictions.

In spite of differences over tactics, this overall aspiration to a more open economy is widely shared. The trick will be to achieve it at the same time as providing for the new immigrants.

Hugh Carnegie

Source: Central Bureau of Statistics

Excluding diamonds, ships and aircraft (billion)



Source: Central Bureau of Statistics

FOREIGN RELATIONS

The passing of a pariah

A by-product of the transformation of eastern Europe has been a diplomatic and demographic windfall for Israel.

The Soviet Jewish immigrants arriving at Tel Aviv's Ben Gurion airport are seen by Israeli policy-makers as ensuring the long-term viability of the Jewish state.

The newly democratic states of eastern Europe are restoring diplomatic relations with Israel. They were broken off by the Eastern bloc, with the exception of Romania, at the time of the 1967 Arab-Israeli war. Only Moscow, which wants Israel to agree to a Middle East peace conference, and the maverick Albania, are standing firm.

The Soviet Union has modified the case automatic support it granted to radical Arab states such as Syria and to the Palestine Liberation Organisation during the Cold War. Eastern bloc support for terrorism has all but vanished.

Israel lies with the numerous African states who wield special influence in the United Nations. It has meanwhile improved steadily since Egypt's peace treaty with Israel in 1979.

"No more pariah," says Mr Reuven Merhav, director general of the Foreign Ministry in Jerusalem. "This terrible isolation is over... we are enjoying a spring in eastern Europe."

This good news for the Foreign Ministry during the tenure of Mr Moshe Arens more than offsets the disadvantages of a tetchy relationship with Washington since President George Bush took over from Mr Ronald Reagan at the White House. It also helps to compensate for the damage to Israel's image caused by the Palestinian uprising in the occupied territories and Israeli attempts to suppress it.

Washington's commitment to the US-Egypt-Israeli strategic triangle is in any case as strong as ever, and in spite of the occasional mutterings in Congress, US aid to Israel continues at a level of \$3bn a year. The problems in the US-Israeli relationship arise from disagreements about the "peace process" and the slightly firmer stand taken by Mr Bush and Mr James Baker, his Secretary of State, against the Israeli expansionism in the occupied territories favoured by Likud hardliners.

Israeli officials were annoyed by Mr Baker's assertion last year that it was time for Israel "to lay aside, once and for all, the unrealistic vision of a greater Israel", and they were irritated by a State Department report last month stating that the PLO had adhered to its 1988 commitment to renounce terrorism. They were incensed by Mr Bush's reiteration of US policy on Jerusalem, which says the city's status should be negotiated. Israel annexed Arab east Jerusalem in 1967 and has surrounded the city - a holy place for Jews, Moslems and Christians - with Jewish settlements.

The Americans have been

upset by the reluctance of Mr Shamir to move towards implementing his own peace plan for elections and self-government in the occupied territories, and frustrated by what they regard as the attempts of the likes of Mr Arens and Mr Shanyahu Netanyahu, deputy Foreign Minister, to score debating points rather than negotiate as if they wanted a solution.

US and Egyptian attempts to arrange preliminary talks between Israelis and Palestinians in Cairo have been foiled by Israel's refusal to accept even an indirect role for the PLO in the naming of the Palestinian delegation. It is not easy to judge a country's foreign policy when there are such differing perceptions about its aims.

If one accepts that Mr Shamir wanted his election plan to work, then hitherto he has failed; but if one accepts the Palestinian argument that the Israeli tactic has been to put the entire peace process on hold while the intifada runs out of steam and extensive Jewish settlement of the territories becomes a fait accompli, then Mr Shamir was succeeding - at least until he lost the no confidence vote in the Knesset last month.

In spite of the advantages of the end of the Cold War and the collapse of communism in Europe, Israel does not necessarily find itself in a safer world, as Mr Netanyahu readily acknowledges. "In a world that is no longer bipolar the threats haven't disappeared," he says. "The world we are now entering is not necessarily more pacific."

The danger of regional instability unrelated to the superpowers has been simply demonstrated by President Saddam Hussein of Iraq. He recently boasted about his country's chemical weapons capability and threatened to destroy half of Israel if he attempted an attack such as the Israeli air raid which destroyed an Iraqi nuclear reactor in 1981.

Israel is concerned by Iraqi long-range missiles, its chemical weapons, its attempts to build a nuclear bomb, and even by its conventional forces following the Gulf war ceasefire with Iran in 1988. President Saddam has forged military links with Jordan on Israel's border, and only an illogical inter-Arab feud has prevented an Iraqi alliance with Syria.

Israeli relations with Egypt (the only Arab state with which Israel has formal diplomatic ties) are frigid but correct following the peace treaty, and Israel has watched with satisfaction as Cairo has been welcomed back to the Arab fold without cutting links to "the Zionist enemy".

In five or 10 years the Foreign Ministry in Jerusalem would like to secure Israel's other borders through a series of strategic arrangements with countries such as Syria and Iraq, but it acknowledges that such deals are unlikely with Presidents Hafez al-Assad and Saddam at the helm.

Victor Mallet

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ISRAEL 3

The private sector is under pressure

Hopes rest on exports

ISRAEL'S private sector industries have taken a beating over the past few years. The Government's continued efforts to curb inflation, cut both private and public consumption in 1989 and put a brake on economic growth. Real gross domestic product grew by only 1.1 per cent last year, compared with 1.5 per cent in 1988 and 5.2 per cent in 1987.

Company profits have fallen sharply and investment has been reduced to a level regarded by many as dangerously low. Unemployment in 1989 peaked at more than 9 per cent, its highest level in more than two decades.

Israel's pessimists fear that industry will not have the competitive edge it needs to succeed in the European Community — the country's most important market — after 1992, that the shrunken-down manufacturing sector will have difficulty absorbing the wave of Soviet Jewish immigrants; and that the Palestinian uprising in the occupied territories, together with uncertainty over Israel's future economic policy, will deter investors.

The optimists say the worst is over. They paint a picture of an economy which has beaten hyperinflation since the mid-1980s and a private sector which has emerged lean and fit from a traumatic but necessary adjustment process.

Israel's emphasis on

research and development into high technology, they argue, is well-suited to the international business environment of the 1990s. Israel can benefit from its high levels of education and the language skills of its people. As the only country which has free trade agreements with both the EC and the US, it can also act as a trading bridge between America and Europe.

Mr Dov Lautman, president of the Manufacturers' Association of Israel and chairman of Delta Galil Industries (one of the leaders in the European men's underwear market), might call himself a realist.

"Industry in Europe is growing at a rate of 5 per cent a year," he says. "We have lost 5 per cent in two years. The main question is, is our industry strong enough? Is our economic policy going to strengthen industry as the market gets tougher?"

Israel's industry, with more than half in private sector hands, caters for a small home market and is therefore heavily dependent on exports. More than 40 per cent of industrial products are exported, but the figure needs to rise to 60 per cent if Israel's trade deficit is to be eliminated, according to Mr Lautman. Yet Israel uninvested by between \$300m and \$500m a year over the past two years and the trend is continuing, he says.

Export industries are particularly concerned that the Government has not allowed the shekel to be devalued in line with inflation. The exchange rate policy is designed to control inflation but it puts exporting companies at a price disadvantage in foreign markets.

"Utilising the rate of exchange as the main way to fight inflation is wrong," declares Mr Aharon Dovrat, managing director of Clal (Israel) the large holding company. "We are now on the verge of an era such that if we have the right government policies we could give a tremendous impetus to our economy."

Clal's performance has mirrored that of the private sector. The company lost money in 1988, more or less broke even last year, and is optimistic about 1990. Clal executives say that since 1988 nearly a third of the workforce has been cut without a decrease in sales. The defence sector is in the doldrums, textiles are improving, and building and civil electronics are doing well.

Whatever the establishment's doubts about investment in automation at the expense of jobs, many Israelis are convinced that non-military high technology will be the backbone of Israel's economy in the future.

Solov, for example, in which Clal has a 14.5 per cent stake and Mr Robert Maxwell's Mirror Group acquired a 27 per cent stake, has developed computer imaging systems for the

publishing industry and most of its sales are exports. It has bounced back after difficulties between 1985 and 1987 and competes successfully in the US, Europe and Japan, where it has a venture with Toyo Ink.

Israel exports linked to its research and development are estimated at \$1.5bn a year; other companies in the high-tech field include Orbital Systems and Optrotech, world leaders in automatic optical inspection systems for integrated circuits manufacturers. The challenge facing emerging Israeli companies is to convert software and other skills into multinational businesses.

"The biggest problem Israeli companies have is moving from small and innovative production to big business and industry," says Mr Arie Rosenfeld, Solov president. Selling civilian products, he emphasises, needs more than the friendly chats between generals and governments which characterise defence contracts.

New technology in more traditional industries such as textiles can help Israeli companies overcome competition from cheaper labour in Asia Pacific. But the problems of overseas marketing and the need for large, cost effective production networks will continue to preoccupy Israel, and may lead them into joint ventures and other relationships with larger corporations abroad.

Last year, two joint ventures were established with Japanese partners in the diamond processing business, and Sara Lee of the US, with its eyes on Europe, has bought 25 per cent of Delta Galil.

Victor Mallet

The defence industry is combating the fall in military spending

Waging a war on cut-backs

ISRAEL'S highly developed defence industries have recently been fighting a tough war of their own against cut-backs in military spending both at home and abroad.

The casualties in one of the country's most important industrial sectors have been great and the battle to recover is far from over, although for some producers at least, the worst may be behind them.

Israel's history of recurrent wars and the political obstacles it often faced in purchasing weaponry abroad forced it to build up its own defence capabilities. The result was a remarkable array of public and private sector companies producing everything from advanced missiles, through regular guns and ammunition to uniforms.

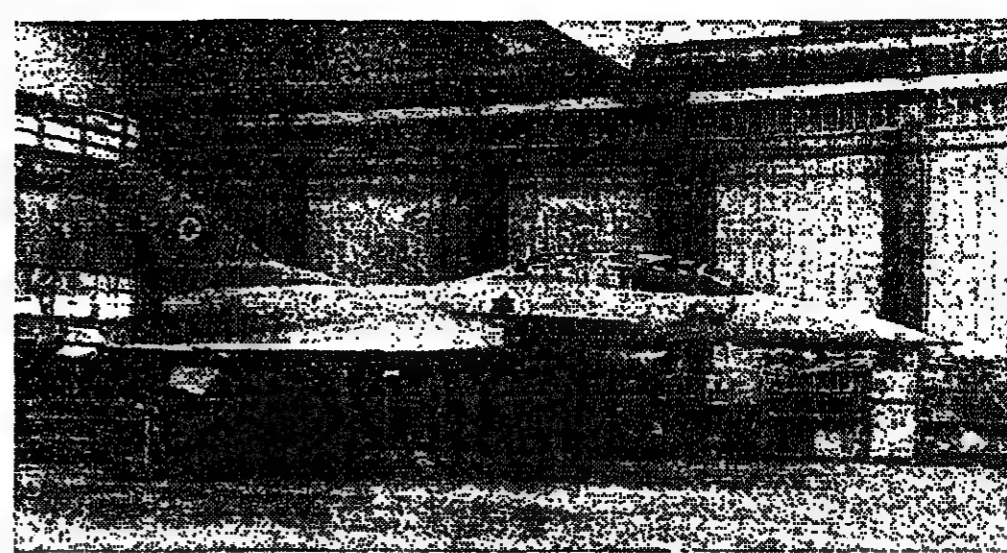
"Combat proven" became the boast of Israeli military products as defence producers grew to account for some 10 per cent of all employment in Israel and a large chunk of exports. Domestic defence consumption amounted to almost 15 per cent of gross domestic product in 1984.

Since then, however, a squeeze on the domestic defence budget and, more recently, a decline in the level of conflict around the world has hit Israeli producers. The result is a painful process of restructuring towards greater efficiency and a more reliance on civilian products. Because the defence sector provides the drive for much of the high-technology activity that is regarded as important to industrial development, its ability to adapt and survive will have strong economic consequences.

The greatest blow was the decision in 1987 by the Government to scrap the development of a home-grown jet fighter, the Lavi. The impact was felt throughout the defence sector, especially at state-owned Israel Aircraft Industries, Israel's biggest company.

The Lavi was the centrepiece of IAI's business plans. It had spent \$1.6bn on two air-tested prototypes when the project was abandoned. What followed over the next three years neatly illustrates the abrupt changes facing Israeli defence-oriented companies.

First, IAI endured a period of sharp losses, \$21m in 1988, as it



The decision in 1987 to scrap the Lavi, a home-grown jet fighter, was felt throughout the industry

scrambled to restructure it reduced its workforce by more than 6,000 to 16,000. The proportion of its sales going to the Israeli defence forces tumbled by one fifth where it once had been 60 per cent.

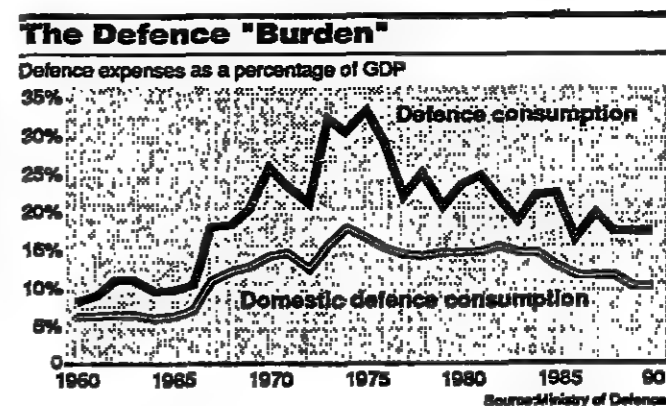
Filling the gap meant increasing exports and significantly increasing the balance of output of civilian products which at the start of the decade had accounted for as little as 10 per cent of sales.

Concentrating on its core business in aviation, IAI began pouring efforts into adapting its aircraft maintenance and conversion systems, avionics, aeronautics and other expertise to civilian uses. The most often quoted example is its promotion of unmanned aircraft, or "drones", for forest fire spotting, anti-smuggling surveillance and other civilian uses.

It is eyeing civilian uses for other products in the medical, communications and ecological fields. The intention is that civilian products should account for half of sales by the end of the decade. At the moment, they account for about 20 per cent. IAI returned to profit in 1988, earning \$11.8m on turnover of \$1.28bn. Its electronics subsidiary Elta is lined up for privatisation.

Other defence producers have not managed to change course so adroitly. Ministry of Defence officials say both Israel Military Industries, a

maker of basic military hardware, and Rafael, producer of air-to-air missiles and electronic products, are on their way to being turned around. But they remain budgetary units of the MoD.



ware, and Rafael, producer of air-to-air missiles and electronic products, are on their way to being turned around. But they remain budgetary units of the MoD.

Two companies which have been laid especially low are Tadiran and Solam, both subsidiaries of Koor Industries, the debt-plagued, trade union-owned conglomerate. Tadiran lost more than \$100m last year largely because of problems in its military communications section. Solam faces deep financial trouble. The army has so far refused to buy its new 155mm "Shohet" cannon, preferring cheaper foreign alternatives or the upgrading of existing cannon.

Smaller companies in the private sector have tended to be more nimble. Last year

Elbit Computers, a New York-based manufacturer of military systems, bought control of Elscint, which makes medical imaging systems to broaden its product base.

Moving away from the military sphere is not the only course. Rada, a Nasdaq-listed Israeli company employing 200 people in Israel and the US, is keeping its business firmly focused on a military niche it believes will remain profitable.

The company makes computerised portable test and control systems mainly for combat aircraft. "We will benefit when budgets go down," says Mr Eyal Misenzon, president of Rada. "When you buy less you upgrade and maintain what you have better."

Hugh Carnegie

Hugh Carnegie on public sector uncertainties

A painful market path

THE INDUSTRIAL arms of both the Government and the trade unions, which together make up a large proportion of Israeli industry, are entering the 1990s in a state of considerable uncertainty.

Privatisation and large-scale restructuring are in the air as the public sector adapts to the need for the market-oriented reform that is so widely espoused as the necessary prescription for economic growth. But the process is hesitant and often painful and the outcome is a long way from clear.

The Government and the Histadrut, trade union federation have been the principal owners of Israel's industrial capacity throughout the country's 43-year history. In fact, Hevrat Ha'ovdim, or the Workers' Society, the Histadrut's

industrial holding company, was started in 1928 as one of the foundation stones of the labour Zionist movement.

There are almost 170 companies owned by the state, generating some 12 per cent of all economic activity. They include Israel Aircraft Industries and Israel Chemicals, both with turnover last year of more than \$1.25 bn.

Hevrat Ha'ovdim's umbrella spreads wide, accounting for 30 per cent of industrial output. Under its direct control are Koor Industries, the country's

largest — but now severely debt-burdened — industrial group, Bank Hapoalim, the largest bank and Solal Boneh, the largest building contractor. The country's extensive co-operative sector is affiliated to Hevrat Ha'ovdim, grouping the Kibbutzim agricultural and industrial collectives, transport operators and retail chains.

The Government has been committed to a programme of privatisation for some time. In 1988, First Boston of the US produced a master plan recommending some form of divestment for most of the big state sector names, either through private placement, public issue or some mixture of the two.

The plan, though not followed that closely, has formed the basis of the Finance Ministry's privatisation strategy. In theory, added impetus came from the political ascent that the economy would benefit from delivering state enterprises into private ownership.

The state sector, hobbled by bureaucracy and a stifling system of elaborate price controls, has a poor profitability record. In 1988, average return on capital was just 1.8 per cent.

In practice, however, things have not been that simple. There have been several successful flotations on the Tel Aviv stock market, most recently a 49 per cent chunk of Maman, an airport cargo handling company. A 75 per cent stake in Paz Oil was sold to an Australian investor for \$100m in 1988 and last year an 82 per cent share of Jerusalem Economic Corporation, a property company, was sold to a group of US investors for \$55m.

These were not much more than a warm up for the big companies, the successful disposal of which has become deeply entangled with politics.

The flagship of the privatisation programme is Israel Chemicals, recently the most profitable state company. The Finance Ministry wanted to sell a 50 per cent share privately for about \$400m and was well advanced in negotiations with buyers from abroad. The

Knesset Finance Committee, which has the power of veto, said it would block any sale of control to foreigners — "golden shares" arrangements not withstanding — because of ICI's status as exploiter of Israel's sole natural resource, phosphates and bromides.

Political opinion tends to favour a local public flotation of ICI, also favoured by ICI management, and the matter has become subject to indefinite delay and uncertainty. Plans are going ahead for public issues in El Al and at least a portion of Bezeq, the telecommunications company. But large-scale privatisation has yet to take place.

At Hevrat Ha'ovdim, the approach is different. The basic commitment to trade union ownership of production remains.

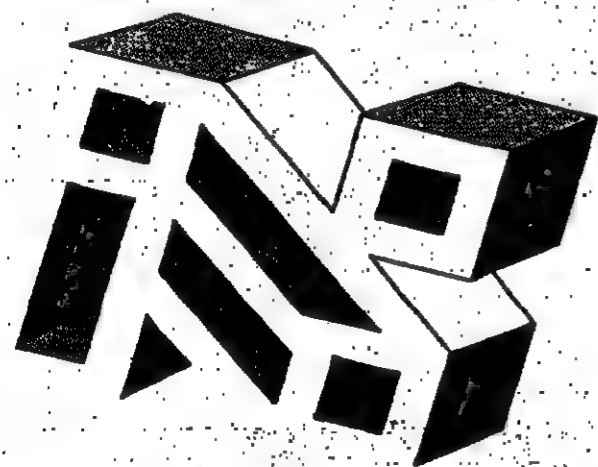
Structures have been under enormous strain in the past few years: Koor, employer of 25,000 in 250 companies including once-profitable names such as Tadiran, is still battling to overcome \$1.2bn worth of debts; the Kibbutzim have had to be rescued from aggregate debts of no less than Shk7bn; before that, Solal Boneh came close to closure.

The Histadrut has occasionally indicated a willingness to centralise, but its strategy is rather to reform. Mainly out of sheer necessity, Hevrat Ha'ovdim is formally committed to pursuing profitability, not just employment for Histadrut members.

Changes in management structures have separated the posts of chairman and chief executive and brought in more outside directors to Hevrat companies. The Histadrut secretary general is no longer chairman of Hevrat, which in turn no longer has a direct role in day-to-day management of individual units.

The question is whether these measures are enough to preserve the huge industrial role of the Histadrut in an economy much in need of a regeneration of industrial vitality.

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ISRAEL 4

AGRICULTURE IN DECLINE

A 'bolshevik' system

AGRICULTURE is in a dismal state, in spite of its deserved reputation for ingenious use of irrigation and famous produce such as its citrus fruits, tomatoes and avocados.

"We are in a situation where all the parameters by which we judge agriculture are negative," says Mr. Ilan Shapira, economist at the Centre for Agriculture, an organisation representing the country's kibbutzim and moshavim collectives, together the backbone of Israeli farming.

In 1988 and 1989, bad weather, followed by rising input prices and falling output prices, led to successive declines in the real value of net agricultural product (output minus inputs) of 14 per cent and 17 per cent.

At home a fall in demand caused largely by a boycott of Israeli goods by Palestinians rebelling against Israeli rule in the occupied West Bank and Gaza Strip hit prices, while tough competition abroad knocked exports, which in the last 10 years have slipped from accounting for a third of output to less than a fifth.

Total farm incomes fell by 15.6 per cent in real terms last year. Since 1987, the numbers engaged in farming (not including hired labour) have fallen from 63,200 to 48,000.

At the same time, the agricultural sector has been weighed down by large debts accumulated in the 1980s. First, the moshavim and then the kibbutzim (the main difference is the moshavim are purely agricultural while the kibbutzim also run industries) required rescuing by the Government and the banks. The 270 kibbutzim had run up debts of \$36.6bn (\$3bn).

The write-offs and rescheduling involved in the rescue packages served to reduce the debt-servicing burden of the farming sector last year, but it still amounted to nearly \$36.6bn, or one third of net

product. At best, the collective movement faces years of struggle to survive. At worst, many collective farms may be forced out of business.

The problems of the past two years may have been particularly acute. But they fit an inexorable long-term trend in which growth figures, averaged over five years, have been shrinking from up to 12 per cent in the 1950s and early 1960s, to near-stagnation in the mid-1980s. Agriculture, once a proud mainstay of the development of the Zionist state, accounts for less than 5 per cent of gross national product.

Mr. Steven Plaut, a business and economics lecturer at Haifa University, is one of several critics who blame the system for much of these problems. He describes as "bolshevik" the structure of monopoly marketing boards and the elaborate system of centrally-imposed quotas, subsidies and pricing which circumscribe most agricultural production. Strict import controls bolster the local pricing mechanism.

"There is even a secret police force checking local outlets to make sure unauthorised farm goods don't get on the market," Mr. Plaut says. "Under the current system the big losers are the consumers and the big winners are the politically-strong farmers - not the weaker farmers."

Another consequence, Mr. Plaut says, is a host of inefficiencies. For example, Israel continues to devote much of its best land to producing cotton, in spite of its lack of profitability and its large consumption of water, an increasingly scarce and expensive resource. Meanwhile, it has been slow to develop higher value produce for export markets such as exotic citrus fruits now popular in Europe.

The evolution of the centrally-controlled system dates back to the era of high growth when

a surplus of food production began to arise, but when exports had not started on any scale. As fears grew of a collapse in prices, the monopoly/ quota/ fixed price system was put in place, coupled with a drive to export.

Figures compiled by Mr. Shapira show that real prices declined throughout the 1970s and 1980s, but this was covered by increases in productivity until 1986 when productivity began to slide. The weaker export performance, slackening of domestic demand and rising input prices have undermined the system.

Mr. Plaut's call for root-and-branch, free-market reform finds little echo in the Government or among farmers. The Agriculture Ministry introduced some liberalisation, for example reducing some subsidies and allowing greater choice to farmers in the marketing boards they sell to. Some farmers have begun to challenge the monopolies of the Agrexco and Citrus export marketing agencies, one flower seller winning the right to export independently. But most argue against wholesale change.

There is a conviction that a free market would drive down prices and force most producers out of business, leaving behind a few powerful farmers who could then drive up prices that underpins the maintenance of a centrally-controlled system. The collectivist instinct that Israeli should not compete with Israeli still appears to hold sway.

With exports likely to be under even greater pressure as the 1993 internal market reforms take effect in Europe, Israel's main market, there is a dilemma over how to revive agricultural performance. The best hope seems to lie in the Soviet Jewish immigrants lifting domestic demand.

Hugh Carnegie

ANGRY Israeli soldiers trained and armed for warfare are chasing a Palestinian schoolgirl carrying a satchel down a shopping street in Gaza. Her friends shout abuse at the soldiers and the occasional stone is thrown at the troops from a roof or an alleyway.

The acrid smell of teargas is in the air, but the soldiers do not seem to have caught anyone; they order the shopkeepers to clear away the makeshift barricades set up by the *shebab*, the young activists. The incident is over, but another one will begin soon.

It is a typical day in Gaza. The Palestinians have made their defiant gesture and the Israelis have gone to great lengths to reassert their control over occupied territory.

The Palestinian uprising - the *intifada* - in the West Bank, Gaza and Arab East Jerusalem began in Gaza 28 months ago when four Palestinians were killed in an accident involving a military truck.

Since then some 650 Palestinians have been killed by the Israeli security forces, about 200 Palestinians have been killed by their fellow Arabs for alleged collaboration with the authorities, and 40 Jews have been killed by Palestinians. The Israelis have made more than 40,000 arrests.

The *intifada* seems to be reaching a critical phase. Palestinians are exhausted and divided, and the number of alleged collaborators killed this

Victor Mallet looks at the occupied territories

Intifada reaches critical phase



Trouble flares in Ramallah on the west bank

year matches the number of those shot dead by the Israelis. Modern Palestinian leaders are worried that the intifada will not last.

The same tensions are apparent in the external leadership of the PLO. Mr. Yasser Arafat, chairman of the PLO and of its dominant Fatah faction, championed the PLO's policy of renouncing terrorism and accepting the existence of Israel alongside a future Palestine in the West Bank and Gaza, and winning a US-PLO dialogue.

Leftist PLO factions, however, are becoming restive about the lack of any benefits

Journalists' Association. "If weapons are used this is the end of everything. The Israelis would like them used, the radicals do not understand this."

The same tensions are apparent in the external leadership of the PLO. Mr. Yasser Arafat, chairman of the PLO and of its dominant Fatah faction, championed the PLO's policy of renouncing terrorism and accepting the existence of Israel alongside a future Palestine in the West Bank and Gaza, and winning a US-PLO dialogue.

from the new policy. A similar unease is expressed by their supporters in the territories. In some places the Popular Front for the Liberation of Palestine has struck up a tactical alliance with Hamas, which favours the abolition of Israel.

Time, the Fatah supporters emphasise, is running out. The peace process has been on hold while Israeli politicians grapple with one of their intractable political crises, and soon the US will lose interest as the presidential election campaign sets out on its long trail. Much depends on the decisiveness of a new Israeli government.

Hamas, and the more radical Islamic Jihad (it espouses the armed struggle), have increased the number of their supporters during the political chaos. They have benefited from the Islamic revival throughout the Arab world, the international collapse of Marxism, and recent setbacks for the secular PLO's attempts to achieve a "two-state solution."

"All parties shared in the intifada," says Dr. Mahmoud Zabar, a surgeon in Gaza and Islamic tendency supporter. "The major winner is the Islamic movement."

Efrat Shvily assesses efforts to revitalise the tourism industry

Uprisings take their toll

ENTRANCE examinations to Israel's Ministry of Tourism last year required that finalists of the country's tourism assets, from the Holy City of Jerusalem to the health spas of the Dead Sea, to a simulated audience of "potential tourists." Then came the crucial question: "But isn't it too risky to go to Israel?"

The Holy Land is still struggling, with some success, to recover from the *intifada*'s negative effect on tourism, the source of nearly 10 per cent of its income from goods and services and provider of income for some 60,000 households.

In 1988, the first year of the *intifada*, tourism to Israel suffered a 13 per cent slump, much the same as in previous periods of unrest, such as the wave of international terrorism

which led to a 17 per cent fall in tourism in 1965, or the Lebanon War which caused a 12 per cent fall in 1982.

In the second year, the number of tourist arrivals in Israel dropped by 1.5 per cent. Income from tourism in 1989 reached \$1.8bn, compared with \$1.5bn in 1988. In early 1990 the slow recovery continued.

The Israeli Government increased its investment threefold to \$300m in 1989, to add to foreign investment of \$450m, as part of its programme to lift tourism. Other measures include grants worth up to one third of investment costs, a seven-year tax holiday and duty-free imported equipment. Last year saw the budding of some important new projects, among them 2,000 hotel rooms, mainly in Eilat, the Dead Sea

and the Sea of Galilee and the Dead Sea lagoon project of spas, shopping centres and an amusement park, all involving foreign investors from Europe and the US.

None the less, 1989 did not bring the "desired, substantial change" that Mr. Michael Federman, president of Israel's Hotel Association, has been waiting for. The number of tourist arrivals in 1989 was still 6 per cent lower than in 1987. Overnight stays in Israeli hotels in 1989 continued to fall, by 2 per cent from 1988.

The fall in hotel occupancy indicates that of the visitors in 1989 a large number were not tourists in the strict sense of the word, but rather visitors to family or friends.

Hotel occupancy rates of about 60 per cent led to a con-

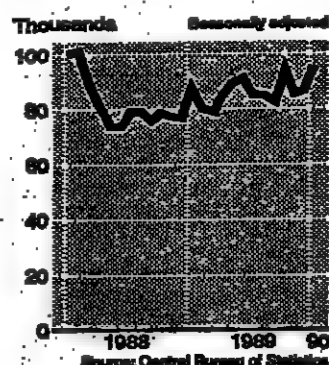
siderable rise in hotel prices in 1989-90. Combined with food and beverage prices among the highest in the world and the higher flight prices to the relatively distant Israel, a trip to Tel Aviv from the US or western Europe has become more costly than to either Athens or Madrid. Tourists in Israel were expected to spend an average of \$1,700 a visit in 1989.

It was only after Mr. Gideon Palti, the Minister of Tourism, was asked to pay \$17 for a hamburger at one of Israel's five-star hotels that the question of excessive prices came out into the open. The furious Mr. Palti embarked on a crusade to force down hotel prices. It is not the *intifada*, but rather uncompetitive hotel prices, which constitute Israel's tourism's main problem, he said.

The Tourism Minister imposed state control over prices of hotel food and beverage items served in hotel restaurants. He shifted infrastructure investments from luxurious to more popular two- and three-star hotels and kibbutz guest-houses.

Forcing prices down has its limits, as some of the price variables have to do with Israel's geo-political position. Well beyond the problems created by the *intifada*, Israel is an end-target country with closed borders on all sides other than with Egypt. This restricts its capacity to participate in package tours of the region. A lack of sufficient direct flights to Europe and

Tourist arrivals by air



elsewhere adds to the problem. A bright spot in 1989, however, was the arrival of 50,000 tourists from eastern Europe following the opening up of the socialist bloc and the restoration of diplomatic ties with Israel after a 22-year break.

Most tourists come from western Europe - 688,000 in 1988 - and from North America (348,000) but Israel has yet to exploit the reservoir of tourists in eastern Europe, Latin America and Asia, and in countries with a large concentration of Christian believers. Given that more than two-thirds of tourism to Israel is oriented to the holy places, even the Jewish state is willing to grant that "Jesus is the answer."

The Ministry of Tourism's goals for the next four years include doubling the number of arrivals to 5m and the state's income from tourism to \$4bn. Mr. Avi Rosenthal, the General Director, believes that with "Jesus, competitive prices and some sort of a peace process," a tourist draw such as Israel cannot but be "flooded" with tourists.

Judy Maltz on foreign investment

Lure of the Jewish factor

ISRAEL has not had an easy time luring foreign corporations and multinationals to its shores, in spite of seemingly attractive incentives.

Those foreigners interested in doing business in Israel, but put off by the political and economic uncertainties, have in recent years preferred acquiring equity in existing profitable companies to setting up new plants and subsidiaries.

Among them is Mr. Robert Maxwell, the UK-based newspaper owner. He holds significant stakes in two leading Israeli industrial concerns as well as in one of the country's mass circulation newspapers.

Mr. Moshe Shamir, chairman of the Organisation of Foreign Investors in Israel, is discouraged about Israel's prospects for attracting new foreign investments. "The laws keep changing, there are tight foreign currency controls, and on top of that, there's the bureaucracy."

His assessment is borne out by recently published figures by the Bank of Israel which show that net direct foreign investment in Israel fell to \$77m in 1989 from \$190m in 1988 and \$212m in 1987.

Hoping to reverse this trend, the Israeli Parliament recently approved legislation lowering corporate tax rates. This legislation comes on top of special laws which provide enterprise approval by the Israeli Industry Ministry with grants ranging from 3 per cent to 38 per cent of the original investment.

Approved enterprises controlled by non-residents are subject to particularly low tax rates, ranging from 10 per cent to 30 per cent, depending on foreign investment levels.

Israeli economic officials point out the Jewish state is in the unique position of having free trade agreements with the US and the European Community. By setting up production or assembly bases in Israel, foreign companies can enjoy duty-free status in these trade blocs. But the same officials are at a loss to cite one example of a foreign company that set up a subsidiary in Israel to take advantage of these

have expanded their investments in Israel, others have not joined them.

Israeli officials maintain that pressure from Arab efforts to enforce a trade boycott on Israel have not been a big deterrent to foreign investment in the country. Still, there are no big European or Japanese multinationals with production bases in Israel.

Red tape has posed an obstacle to foreign investment. "I don't think the problem is the package of incentives the Government offers," says Mr. Dov Frohman, managing director of Intel (Israel). "Rather, it is the implementation."

Declining export profitability and political uncertainties have served as further hindrances, according to Mr. Shamir of Vishay.

Partly offsetting these problems in recent years has been what Mr. Shamir calls the "Jewish factor" - prominent Diaspora Jews, such as Mr. Maxwell and Mr. Bronfman, expressing their commitment to Israel in the form of large financial investments.

This sentimental motive was behind the decision of American investor Mr. Jack Liberman to purchase Paz, Israel's leading fuel group, from the Government two years ago.

Since then, scores of Jewish businessmen have flocked to the country, in search of other possible investment opportunities. Some have set their sights on the other state-owned corporations on the privatisation block, while others have entered into negotiations with the ailing, trade union-owned Koor conglomerate.

Mr. Maxwell has in the past 18 months purchased 30 per cent of Scitex, a world leader in computer imaging equipment for the publishing industry; 18 per cent of Teva Pharmaceuticals; and 45 per cent of the Mafar afternoon newspaper. During this period, the Bronfman group acquired 20 per cent of Teva; 28 per cent of ECI Telecom, a leading Israeli exporter of telecommunications equipment; and 23 per cent of Optrotech, a world leader in automated optical inspection equipment for the printed circuit board industry.

Not all types of foreign investment are being welcomed with open arms. Recent concern that the Government may have undervalued some of its prized corporations, when selling them to foreigners within the framework of its

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ISRAEL 5

FINANCIAL SECTOR

Liberal trend hardens

THE Government is deeply entangled in the capital markets and banking system as it is in so many sectors of the Israeli economy. However, perhaps more than in other areas, steps are being taken that promise significant disengagement and liberalisation.

Since 1985, when the Government attacked three-digit inflation and alarming fiscal deficits with a mixture of austerity and reform measures, the state's rigid control of investment flows has been eased and further loosening is planned.

Progress in this direction is regarded by the Bank of Israel and the investment community as essential to the effort to free the economy and produce long-term, market-led growth.

The intention is to broaden the hitherto narrowly-based Tel Aviv stock exchange and allow the banks and other financial institutions much greater leeway to expand their activities, thereby opening up much greater access to capital sources for the private sector.

At the same time, the four main banks, which dominate the financial sector, are due to undergo a re-ordering of their eccentric ownership structures.

The state's virtual stranglehold on the capital markets prior to 1985 arose from a mixture of factors. Since 1949, a series of socialist-oriented governments have responded to acute civilian and defence development needs by becoming the statutory intermediary, arbitrator and subsidiser of most investment resources.

Later, the Government's role was cemented by large state borrowing requirements engendered by the opening up of big fiscal deficits in the late 1970s and early 1980s.

The result was that by 1985, almost all long-term savings and a heavy proportion of other deposits had by law to be invested in government instruments at interest rates fixed by decree. The Government in turn controlled, for example, the mortgage market and was the channel for lending to industry and agriculture. Any private issue required Government approval.

The latter requirement has largely been abandoned. A private mortgage market has begun to develop, though only as a top-up to state mortgages. The portion of credit in the

banking system not directed by the state has risen to 54 per cent from 31 per cent.

According to Mr Gad Arbel, capital markets commissioner at the Finance Ministry, approaching half of the Government's borrowing for budget financing is done at market prices, helping to push down the real average cost of funds to less than three per cent, compared with more than five per cent in 1987.

Other measures include allowing limited investment in foreign assets by Israeli mutual funds, greater freedom for the banks to utilise foreign exchange deposits and the establishment of foreign exchange-denominated deposit accounts for the public.

One problem area remains the pension funds, which account for a large chunk of Israel's investment capital. Because of the political clout of the Histadrut trade union federation, which controls most of the funds, they remain locked in special government issues at preferential rates of return.

However, the proportion of Providential Funds required to be invested in Government bonds has been cut to 72 per cent, leaving the balance for private bonds and equities. For the small Tel Aviv stock market, with a market capitalisation of some \$2bn, this is an important development as the Providential Funds have assets of about \$20bn.

The stock exchange has experienced something of a boom in the last two years. In spite of the generally subdued economic climate, in large part because of growing demand for the limited supply of private issues. Existing private sector corporations are coming increasingly to the market for funds - to the tune of about \$500m a year.

A great injection for the stock exchange would be for the Government's privatisation programme to come to fruition. Several smaller state companies have been successfully floated. A \$100m tranche of stock in the telecommunications company Bezeq is due to be issued this year and other big state companies are being prepared for at least a degree of flotation.

Optimists anticipate a transformation of the capital market scene, although clearly much depends on the maintenance

of the hitherto unsteady political commitment to pushing through privatisation and reducing the Government's call on the market by controlling the budget.

While the Israeli banks stand to benefit from such reforms, they have recently been preoccupied with more mundane performance problems and the issue of their own ownership.

The banking sector, with combined assets of some \$80bn, is dominated by Bank Hapoalim, controlled by the Histadrut; Bank Leumi, controlled by the Jewish Colonial Trust; Israel Discount Bank, controlled by the Recanati family of Tel Aviv and Bank Mizrahi, controlled by the world Mizrahi religious Zionist movement.

Profitability in 1989 recovered from a low in 1988, when average return on capital slumped to 1.5 per cent mainly due to large loan loss provisions, but was below 1987 levels. Provisions were not so high in 1989, but remained well above international levels of about 1 per cent of loan portfolio. A feature last year was the impact of lower interest rates and the continued lack of spark in the economy.

However, costs have in general been coming down and the Bank of Israel believes the banks are heading towards sounder overall performance.

The Government has reached agreement with the operators of the four over-resolving the anomaly whereby the state holds a majority of their stock, but without commensurate control. This arose when the Government committed no less than \$7bn of taxpayers' money to rescuing the banks from a collapse of their shares in 1983.

In the next two years, the Government will sell a controlling stake in the four, privately, in a step towards selling its bank holdings to recoup some of its \$7bn outlay - perhaps one third according to estimated values of the banks.

Some change in control is probable at Bank Leumi and Bank Mizrahi, with the Bank of Israel keen to see a limited level of foreign involvement. The Government intends splitting up some of the groups, such as having off Bank Leumi's Union Bank subsidiary.

Hugh Carnegie

Hugh Carnegie and Efrat Shvily on immigration

The troubled exodus

THE TIDE of emigration by Soviet Jews that has flowed towards Israel since late last year has sometimes been compared to the Jewish exodus from Pharaoh's Egypt 4,000 years ago.

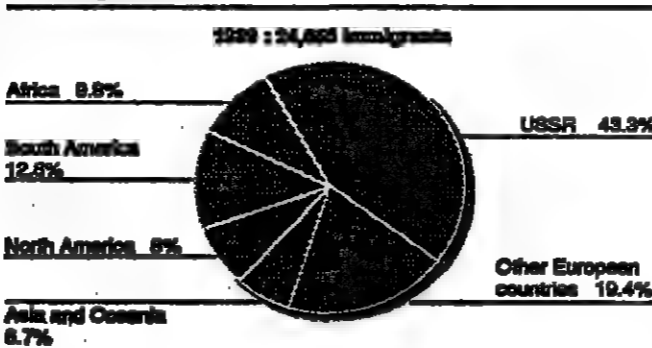
That is probably overstating things. But the surge of Soviet immigration - or "aliyah" (ascension) - is likely to become one of the most significant influences of Jews to Israel since the late 19th century.

Potential long-term consequences are great, affecting both the demographic balance between Arabs and Jews in the area and posing a daunting challenge to the straining Israeli economy. There have also been some signs of concern in the majority and generally less well off Sephardic or Oriental Jewish community about an influx of more Ashkenazi or European Jews.

In the shorter term, however, the chief concern of the Israeli authorities and the immigrants are the problems associated with the immediate absorption of large numbers into a relatively small country. There have even been arguments over the insistence of orthodox rabbis that the immigrants prove their Jewishness. Officials say 10 per cent of male immigrants are uncircumcised.

One difficulty is knowing how many Soviet Jews will come. Since their preferred destination, the US, restricted access last year and instability and fears of anti-Semitism grew in the Soviet Union, the numbers coming to Israel have increased. In December 1989, it was more than 3,600, the following month the figure rose to nearly 5,000.

Immigration



Source: Bank Leumi



Demonstrations outside the Prime Minister's office in March

In February, the Government censured the numbers. But reports speak of more than 7,000 arrivals in March. Up to 100,000 are expected this year and perhaps 250,000 over the next three years.

The Government is prepared to spend up to the equivalent of \$1bn on absorption costs this year, a large sum for an economy heavily burdened with debt and budget overruns.

The Jewish Agency, the quasi-Government organisation that organises the travel of the "olim" (ascendants) and much of their initial absorption, spends an average of \$11,000 on each new family in their first year. This subsidises their accommodation and other living costs. In addition there are free Hebrew lessons and other help in assimilation.

Housing is the immediate worry. One fifth of the newcomers are housed in 40 special centres. The remainder go to rented apartments. To date, enough space has been available to cope with the influx. But if the flow continues at anticipated rates, demand will quickly outstrip supply.

The Government has plans to build 36,000 new housing units, but only 6,000 are under way. "The problem is it takes too much time - at least two years - to build apartments," says Mr Gad Ben Ari, spokesman for the Jewish Agency.

The agency has emergency plans to house immigrants in hotels, hostels and guest houses. The housing ministry is also planning to buy in pre-fabricated units from abroad to ease the pressure.

Then there is the question of employment. With the jobless rate at about 9 per cent, immigrants are worried about what work will be available to them, in spite of the high qualifications they typically possess.

In another couple of months, when the immigrants begin leaving their Hebrew classes and start looking for jobs, we may be faced with a danger of massive emigration, not the prospect of massive immigration," Mr Robert Golan, head of the Organisation of Soviet Immigrants said recently. His worry may have been exaggerated, but it haunts Israeli officials.

THE DIAMOND INDUSTRY

A rough deal

THE diamond industry was shaken in January by the murder of Mr Uri Sheibovsky, a 54-year-old trader stabbed in a 10th floor office at the Israel Diamond Exchange in Tel Aviv. His assailant is thought to have stolen millions of dollars in diamonds.

Israel has largely escaped the crime associated with the industry, although Mr Moshe Schnitzer, the exchange's president, was stabbed in an Antwerp hotel. The exchange has tightened security and offered a \$250,000 reward for information leading to arrests.

The diamond industry, which provides a living for some 20,000 people and accounts for a fifth of the value of Israel's visible foreign trade, faces a more serious challenge.

After six years of healthy growth, the volume of Israeli polished gem diamond exports fell in 1989 and continues to fall in 1990. Israelis blame the effects of last year's 30 per cent rise in the cost of rough diamonds supplied by "the syndicate" - De Beers' central selling organisation - and the poor state of the US market.

The fall of the yen against the dollar and the financial turmoil in Tokyo has unsettled Japanese consumers, and the CSO announced a further 5.5 per cent average price rise last month for rough diamonds - the raw material for the cutting and polishing industry.

Israel processes half the value of the world's rough diamonds for jewellery. It exported a record 4.2m carats in 1988, falling to 3.9m last year. Export value rose slightly from \$2.5bn to \$2.7bn on the back of higher prices, but in March this year volume was 20 per cent down on the same month in 1989, and the value of exports fell to \$250m.

The problem for Israeli manufacturers is that retail price increases have not matched the rising cost of rough diamonds, squeezing profit margins and forcing some of the country's 700 or so factories and workshops to close down, lay off workers, and move into the trading business. Last year, the difference between Israeli exports and imports of diamonds was only about \$160m.

"The weaker manufacturers just closed down. The stronger manufacturers may cut the number of their employees a little, cut their profits and squeezed their expenses," says Mr Tzafir Anbar, diamond controller for the Ministry of Industry and Trade.

Israel's commitment to the diamond business is not in doubt. A fourth building for the diamond complex, where black-clad orthodox Jews mingle with other Israelis and dealers with briefcases chained to their wrists, is under construction. It is expected to be the tallest skyscraper in the Middle East, and four-fifths of the space has been sold.

Israeli manufacturers have largely abandoned the processing of smaller, lower quality diamonds to the cheap labour of Bombay and Asia Pacific, but they are attempting to consolidate their position in the middle reaches of the market with advanced technology.

"A few years ago we spent \$50,000 a year on development. Today it's more than \$1m," says Mr Zvi Shur, general manager of the Israel Diamond Manufacturers Association. The aim is to have an integrated diamond production system using computers to analyse the potential diamonds in the rough stones and lasers to fashion the final shapes. With purchases of rough diamonds running at more than \$2bn a year, an improved yield of even 1 per cent is equivalent to a saving of some \$20m.

Automation also saves on labour costs and should lead to a more accurate "make" of the final product to command higher prices.

Israeli manufacturers and traders are far from gloomy about the longer term, in spite of the immediate difficulties in the US, Japanese and Hong Kong markets, which together take 75 per cent of Israeli exports. Consumption of diamonds is growing in Asia Pacific nations such as Taiwan and there is hope for new markets in eastern Europe.

Mr Charlie Hollander of HR Diamonds says his company's sales have risen 45 per cent this year to some \$20m. He attributes HR's success partly to its concentration on Asia.

"Today, one manufacturer cannot produce enough, so they need companies such as ours to put together big orders of similar stones... that's the advantage of a market like Israel's," he says.

Victor Miallet

Israel Chemicals Ltd. (ICL)

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Money Market Bank Accounts

FINANCIAL TIMES TUESDAY APRIL 17 1990

مكتبة ابن بطوطه

WORLD STOCK MARKETS

AMERICA

IBM earnings give the Street what it needs

Wall Street

STRONGER than expected earnings from IBM drove stock prices broadly higher yesterday morning, writes Karen Zagor in New York.

The Street, well aware of sluggish economic activity and expecting disappointing first quarter results in general, reacted positively to this exception to the rule.

At 2pm, the Dow Jones Industrial Average was up 30.31 at 2,822.21, consolidating its pre-holiday gain of 22.07 on Thursday, when it closed at 2,751.80 before Friday's holiday. Volume on the New York Stock Exchange was moderate, with 93m shares changing hands by mid-day. On the high board, shares outperformed a ratio of four to three.

The gain in equities was broadly based, with all of the major market indices registering gains at mid-day. The Standard & Poor's 500 was up 2.15 at 346.49 at 2pm, the New York Stock Exchange Composite gained 0.97 to 188.77 and the American Exchange Composite rose 0.05 to 367.98. Secondary issues also posted gains at mid-day with the Nasdaq Composite up 1.40 to 437.71.

The bond market, which initially moved higher in tandem, fell back later in the morning. At mid-session the Treasury's benchmark 30-year bond was down 1/8 at 94 1/8, yielding 8.63 per cent. At the short end of the yield curve, the two-year issue was unchanged to yield 8.57 per cent. A state of economic data is due out this week, including March housing starts, consumer prices, industry production, and capacity utilisation.

IBM jumped 38% to \$110 1/4 after the company reported first quarter net income of \$1.51 a share, up from \$1.51 a year earlier and higher than most analysts had expected. The issue was by far the most active of the morning on the New York Stock Exchange. Among other technology issues, Digital Equipment added 1/4 to \$83 1/4, Compaq Computer rose 1/4 to \$101 1/4.

Hewlett-Packard advanced 1/4 to \$45 1/4 and Apple Computer improved 1/4 to \$43 1/4.

Disappointing earnings helped push Chase Manhattan Bank down 1/4 to \$29 while JP Morgan lost 1/4 to \$35 1/4. Both banks reported a decline in first quarter income.

Aluminum Company of America rose 1/4 to \$63 1/4 although its first quarter earnings fell from \$3.12 to \$1.89 a share. The company said that order rates in March were better than in recent months. TTX added 1/4 to \$14 after it said that it would provide a reserve of \$185m against its investment in Ames Department Stores. Ames, which last week said it expected to post a loss of \$228m for the year ended January 27, rose 1/4 to \$2.

Lands' End plunged 4 1/4 to \$15 after the company said on Friday that it expected earnings to fall to between 6 to 13 cents in the latest quarter from 23 cents a year earlier. Landmark Land advanced 1/4 to \$12 1/4 on the American Stock Exchange. The company's thrift unit has reached an agreement to sell a large portion of its real estate and resort holdings for \$97m.

Canada

TORONTO failed to catch on to Wall Street's rally following better than expected IBM results and prices were mostly unchanged at mid-session. The composite index rose 1.1 to 3,562.3 on volume of 6.72m shares at mid-session.

Among active shares, Toronto-Dominion lost 1/4 to C\$17 1/4, and Oxeo fell 1/4 to C\$13 1/4. Public hearings begin this week in Alberta between Canadian Pacific and Husky Oil to settle a dispute over a huge sour gas deposit. CP shares were unchanged at C\$23 1/4 and Nova, which owns 49 per cent of Husky, was flat at C\$8. Gold shares slipped after futures traded lower in slow turnover in the absence of trade on the London market. American Barrick lost 1/4 to C\$20 1/4 and Placer Dome slipped 1/4 to C\$18.

Tidal wave of money boosts Santiago share values

Leslie Crawford details the impact of foreign investment funds in Chile's bargain basement for equities

A TIDAL wave of money has hit Santiago's small stock market as nine foreign investment funds compete to snap up Chilean shares at bargain prices. Over \$200m has flooded into the stock exchange, or bolsa, since the first fund began operating six months ago.

The index of the 50 most traded shares, IPSA, has risen by 15 per cent in real terms over the past three months, while the average daily trading volume has jumped 30 per cent to \$4m. This has taken place in spite of the Central Bank's raising of interest rates in an attempt to curb inflation, and has come in Chile's summer months, which are traditionally the most sluggish of the trading year.

The bolse's unseasonal activity is the work of the foreign investment funds, which now account for about a third of the

total trade in shares, and have become the largest institutional investors in Chile.

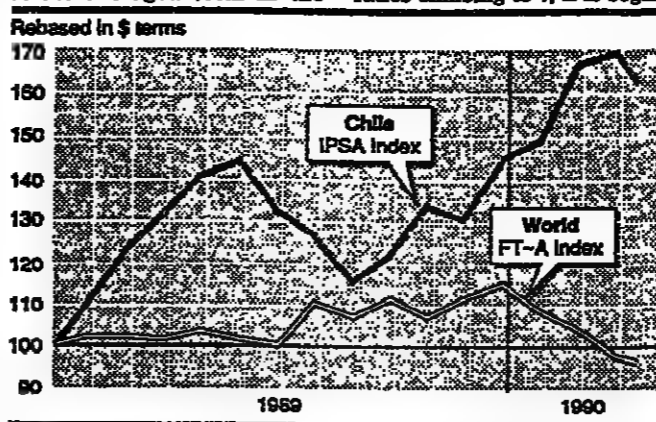
Domestic private pension funds, the only other significant presence with an aggregate \$40m in invested funds, have watched the foreigners' scramble for shares from a distanced distance. They were authorised recently to invest a larger portion of their portfolios in stocks, but they appear to be in no hurry to do so.

The foreign investment funds, say stock market officials, will add depth and stability to a small and illiquid market. There are more than 200 companies listed on the Santiago Exchange, but the five most actively traded shares account for almost 60 per cent of total trading volume.

Ownership concentrated in the hands of a few shareholders has limited the market. Trading in shares represents

only about 3.4 per cent of all transactions on the exchange. Daily volume in other instruments averaged \$90m in the

first two months of 1990. But as price/earnings ratios rise, the Chile market hopes that more companies may be



persuaded to raise capital on the stock exchange — a rare practice to date. "With p/e ratios climbing to 7, it is begin-

mon Brothers' Chile Fund.

The Chile Fund was first off the block last October and is now the biggest of the seven direct investment funds, with a net value of \$93m. It began investing when the p/e ratio stood at 5.5 and has made a healthy 25 per cent return on its investments in its first six months.

The latest newcomer, Rothschild's \$90m Five Arrows Chile Fund, has had to contend with higher prices, but its managers believe that Chilean shares are a bargain compared with other emerging markets in Latin America and the Far East.

Nevertheless, the sheer weight of money chasing so few shares poses a dilemma for managers: should they rush in before their competitors talk prices up further, or should they put their money elsewhere until the market looks more attractive? The pio-

neers, such as the Chile Fund and the Genesis Chile Fund, have invested almost their entire portfolios in shares. Five Arrows and the GT Chile Growth Fund of California, which began operating in February, have placed only a fraction of their funds in the Chilean market so far, with most of it in debt instruments.

In addition, there are two debt-for-equity investment funds totalling \$90m which are managed by Midland Bank. While they compete with the direct investment funds, they are subject to different operational rules and tax codes. In spite of the interest shown by several other banks in starting their own debt-for-equity funds, the Central Bank is said to be cool about the idea. It would prefer debt conversions to be channelled into new investments rather than existing equity.

ASIA PACIFIC

Weak yen pushes Nikkei under 29,000 support level

Tokyo

ANOTHER setback for the yen took share prices sharply lower yesterday, and the Nikkei average lost 2.6 per cent to close below the 29,000 support level in the lowest daily volume this year, writes Michiko Nakamoto in Tokyo.

Turnover shrank to 230m shares from Friday's 320m, as sentiment soured in the face of a faltering yen and investors remained firmly entrenched on the sidelines.

The fall in share prices was brought on by professional off-loading positions in a thin market and by arbitrage between the stock indices and futures. The Nikkei average turned lower early on, losing over 300 points just after trading began and extended its loss as the day progressed.

After moving from a high of 29,153.02 at the opening to a low of 28,396.35, the leading index closed the day down 760.74 at 28,463.18. Declines led advances by 871 to 110 and a further 98 issues were unchanged. The broad-based Topix index also took a hefty drop, falling 38.12 points to 2,129.77.

"With the yen as weak as it was, and with important trade statistics expected out of the US this week, we thought that the market would be weak from the start," said Mr Shin Tokoi at County NatWest Securities. Foreign investors were away for the Easter holidays and dealers who had bought stock last week in the hope of making short-term gains were forced to close their positions.

The sagging yen has made for an overall mood of caution, and the resulting lack of activity undermined the ability of large institutions to buy on the cheap and lend support to the market. "There is some interest in buying because share prices are at attractive levels," said Mr Tokoi. "But with so little activity in the market they are afraid that their buying would cause prices to shoot up," he added.

What optimism there was yesterday centred on export-oriented plant engineering stocks which would benefit from the lower yen and, if they were makers of oil production equipment, from higher oil prices. Chiyoda Corp, a leading plant engineer with strength in oil refining and petrochemical plants, rose 790 to 72,980 in

active trading. Large capital issues were neglected on the whole due to low turnover, but Nippon Steel attracted buying at current levels. It was the most actively traded stock, with 14.6m shares changing hands, and gained ¥10 to ¥568. High-tech electronics, however, were hit by profit-taking after their gains last week, and Hitachi, second in volume with 7.6m shares, lost ¥30 to ¥1,600. Toshiba retreated ¥10 to ¥1,090.

The OSE average in Osaka saw a 597.08 point slide to 30,851.87 on profit-taking in electronics and an overall lack of buying interest. Volume fell to 16.4m shares from the 25.9m traded on Friday.

Roundup

PACIFIC Rim markets which were open on Easter Monday were unsettled by the decline in Tokyo, and volumes remained low because of the holiday. Hong Kong, Australia and New Zealand were closed.

SINGAPORE was initially weighed down by Tokyo's drop but ended slightly higher thanks to selective buying in the afternoon. But turnover dipped to its lowest level since

November 1988, at 25.4m shares worth \$554.1m, sharply below Thursday's 87.2m shares worth \$813.1m. The Straits Times index added 5.21 to 1,530.43. Kamunting and Malaysian Plantations continued to fall following news of their plans to merge. Brokers said that neither company appeared to gain from the merger and also expressed concern over Kamunting's debt level.

Kamunting lost 3 cents to S\$1.14 and Malaysian Plantations shares fell 6 cents to S\$1.10. KUALA LUMPUR ended lower as sell orders hit a thin market. Investors were rattled by Tokyo's fall and by the prospect of an early general election in Malaysia. The composite index fell 3.64 to 553.18 while turnover dropped to 27.1m shares from 30.4m shares.

SEBOL fell further as investors lost their nerve following the index's dip below the 800 support level on Saturday. The composite index closed at 777.00 yesterday, its lowest level since November 1988 and down 16.14 from Saturday, in thin volume of 9.8m shares valued at 172.5m won. The country's poor economic perfor-

mance and rising inflation continued to be blamed for the flight of money out of shares and into real estate and other speculative investments. News that the Government intended to crack down on real estate speculation did little to cheer the market.

TAIWAN opened higher but was hit by selling late in the day on a renewal of the intermittent rumours that Hung Yuan, one of the biggest underground investment houses, was in financial difficulties.

Traders also attributed the weakness to a failure by the banking sector to hold up. This sector, which makes up nearly half of the weighted index, ended 0.6 per cent higher after a rise of nearly 2.6 per cent earlier in the day. The weighted index, which declined 167.6 on Saturday, shed another 16.80 to close at 9,419.32, the lowest level so far this year. Earlier in the day the index had gained more than 150 points. Trading volume rose to NT\$80.02bn from Saturday's NT\$74.06bn.

MANILA ended firmer on isolated demand for blue-chips but volume was low. Sanitwares led the market, closing up 3 pesos to 61 pesos. San Miguel

was unchanged at 86.50 pesos after the company said that profits in the next two years would be depressed by funding a 25bn peso expansion programme, and by lower revenues following a proposed tax increase on beer. The composite index closed 1.48 higher at 1,066.02.

EUROPE

ALL CONTINENTAL houses were closed on Easter Monday except MADRID which ignored Tokyo's fall and rose strongly.

The general index rose 5.19 to 355.34 in the continuous market session. Investors were pinning their hopes on favourable first quarter corporate results and an improvement in inflation figures from April after a lower than expected 0.4 per cent rise in March.

Salomon Brothers said in a report that the Spanish authorities would soon lower interest rates now that inflation was cooling, world oil prices were weak and the Spanish economy was set to grow at a more sustainable level. "Spanish share prices have now reached compelling levels," the report said.

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The holders of 7 1/2 % 1984 - 1989 bonds issued by ACCOR and convertible into ordinary shares are called to a General Meeting to be held at 3, rue La Fayette - 75009 PARIS, on May 4, 1990 at 2 p.m., in order to consider the following agenda:

- Approval of the shareholders' waiver of their preferential rights to subscribe securities that the Extraordinary General meeting of shareholders on May 9, 1990 (eventually deferred to May 16, 1990) will authorize the Board to issue.

- Decision on the method of recording the documents of the General Meeting.

The permit the bondholders to attend or to be represented at this meeting, the bonds or their deposit receipts must be deposited at least five days before the date fixed for the meeting, at the offices of the banks having participated in the placing of these bonds and from whom proxies or admission cards can be requested. This meeting shall be validly held if the holders of twenty five per cent of the outstanding bonds are present in person or represented.

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Stock	Price	Yield	Last	Interest	Dividend	Yield	Yield	Yield	Yield
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4500 Tr. 2000-97-01	111.11	14.2	12/01/97	111.11	14.2	12/01/97	111.11	14.2	12/01/97
4500 Tr. 2000-97-02	111.11	14.2	12/01/97	111.11	14.2	12/01/97	111.11	14.2	12/01/97
4500 Tr. 2000-97-03	111.11	14.2	12/01/97	111.11	14.2	12/01/97	111.11	14.2	12/01/97
4500 Tr. 2000-97-04	111.11	14.2	12/01/97	111.11	14.2	12/01/97	111.11	14.2	12/01/97
4500 Tr. 2000-97-05	111.11	14.2	12/01/97	111.11	14.2	12/01/97	111.11	14.2	12/01/97
4500 Tr. 2000-97-06	111.11	14.2	12/01/97	111.11	14.2	12/01/97	111.11	14.2	12/01/97
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...s Corp.	23	+0.5	...
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	36	-5.3	
Red Lake	12 1/2	+8.7	
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CS1	34 1/2	-2.0	
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Winnipeg 20p	71		
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Res 12c	19		

THIRD MARKET

new 100...	40
sec. 100...	17
sec. 100...	33
Farmers	22
of Soc. Sp.	18
log. 10...	43
Oil 100...	31
ploration...	14	-3.3

News 10p	15		
10p	15	+3.4	
News Sp.	74		1.72
Intl.	13		
Storage Serv.	215		
Leis. Sp.	17		
Glass Sp.	75		
Insurance Sp.	13	-7.1	3.9

Hib. 2p	26		
pin. 1/2 50p	45	-4	
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pin.	36		
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Group 56..Y	8		
Group 50p.	65	-13.1	
Group 21p.Y	62		
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est...Y	44	+15.8	
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Source Sp	29	-9.4	0.21
1p	218	+13.4	
Source 10p	34		7.71
10p	67		
1p	5		
Source	35		
1R Zp	43	-6.5	
Source Sp	48		
1p	25		1.11
5p	73		

Harry I...	95	6.3
Star Sp...	43	-2.3	5.7
ord 10p...	14	3.6
ns.	24	+4.2
n Sp	30
Studios 1p	14
etang 20p	64	-7.2
p 10p....	42	-10.6	8.2
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1st Sp...	13	-13.3
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1st...	18	-
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0000000000	84	Unilever
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The Business Column

Privatised companies face new pressures

WHEN privatisation surfaced as a political issue in the mid-1980s, it seemed to have a fairly clear meaning — the transfer of publicly-owned assets to private ownership.

The bureaucratic entanglements of state ownership were to be replaced by the disciplines of a capital market with shareholders breathing down managers' necks.

But as the programme has moved on, so has the task facing privatised companies.

In the past month three have published plans which signal a change of direction.

British Petroleum announced a sweeping change in the organisation and culture of its central management.

British Telecom unveiled plans for the introduction of more customer-driven units capable of responding more effectively to international competition.

Last week British Airways launched a revised version of its mission and goals intended to give its employees a renewed focus for the challenges of the coming decade.

The similarities between British Airways and British Telecom are particularly striking. Both have had to work heavily to improve their customer service reputations.

Top-class service

BA has made more progress in turning itself into a top-class service company than BT. The quality of the UK telephone network reached a low in 1987 three years after privatisation, forcing BT to delay staff reductions and accelerate investment.

Both businesses rely on efficient infrastructures. BT is to start reaping the rewards from its investment in a digital trunk network. It plans this summer to start work on a digitalised network for Edinburgh which will be the most advanced in the UK and serve as a test bed for other schemes to be announced later in the year.

In contrast, BA's infrastructure is increasingly creaking. It is stymied by the inadequacies of European air traffic control which creates delays which no amount of customer service can overcome.

Airport capacity in the South-East is limited and transport links to Heathrow are poor by the standards of competitor airports such as Schiphol, near Amsterdam.

The initial priorities of costs, then customer service, then marketing and branding are being replaced with more complex tasks.

Both companies operate in highly regulated industries, with constraints on cross-border shareholdings.

They have left state ownership but they are still some way from a fully competitive, international market.

It is that transition which managers at both companies are preparing for.

International links

At the same time, more intense competition is starting with the progressive international deregulation of their industries. Both will have to fight harder to protect their traditional UK markets while forging international links.

They will have to develop more products, more swiftly, in more markets, while also keeping a tight grip on their core domestic businesses.

The message of both initiatives is this: after the shock of the transfer of ownership, the success of privatisation rests on whether there is a real change in management.

These changes in the businesses will in turn set a very different context for debates about the future of privatised companies.

A by-product of privatisation in the UK has been the creation of a system of industry regulators, covering telecommunications, gas, electricity and water.

When this is combined with the powers of the Office of Fair Trading, the Monopolies and Mergers Commission, the Department of Health's regulation of pharmaceuticals and the influence of the Ministry of Defence over much of the aerospace and electronics industries, it is a formidable but rather unco-ordinated regulatory battery.

In the hands of a different Government it could become a powerful weapon. The issue of the 1990s may well be not who owns companies but how they are regulated.

Charles Leadbeater

INTERVIEW

All the world's a stage

Time Warner co-chairman Steve Ross speaks to Alan Friedman in New York

Instance, to sell Warner records on Warner-controlled cable networks, or to make use of Warner film libraries for cable programming.

Similar synergies have fuelled Mr Rupert Murdoch's strategy in the US, where he controls newspapers and magazines, the Twentieth Century Fox film studio and a fledgling television network that can make use of Fox's library.

Not everyone, however, is convinced. Ms Heather Goodchild, a vice-president of the Standard & Poor's rating agency, says that while Mr Ross is well respected on Wall Street, and the diversification and market position of the var-

PERSONAL FILE

1927 Born NY

1952 Merges family business with NY carpark company Kinney

1969 Acquires Warner Bros; changes company name; buys first cable television business

1976 Buys Atari video games

1981 Launches MTV and other cable ventures

1984 Sells Atari

1987 Starts merger talks with Time Inc; \$14bn merger deal announced in 1989

ious Time Warner businesses are important pluses in evaluating the company, synergies are a different matter.

"I grant you the businesses are very complementary," says Ms Goodchild, "but it will take time and work to accomplish anything significant in terms of increased cash flow from synergies."

Critics also point to the fact that last year's merger left the company saddled with \$10.6bn of debt. Merger-related costs, mainly interest, caused a \$356m loss last year for the company. And when Time Warner announced last week it would guarantee \$650m of bank loans that would enable Mr Giancarlo Parretti, the controversial Italian financier, to acquire MGM/UA, the Holly-

wood film and television studio, Standard & Poor's reacted by placing Mr Ross's company on its creditwatch list.

Time Warner's guarantee, in exchange for distribution rights to MGM/UA films, is likely to be the factor that allows Mr Parretti to succeed with his \$1.28bn tender for MGM/UA Communications Inc.

The Time Warner-Parretti deal also offers insight into the character of Steve Ross.

Ross has few qualms about forming close ties with a little-known Italian entrepreneur who is even now appealing against a recent conviction in Naples for financial irregularities in relation to the collapse of a Naples newspaper in 1981. The reason? He clearly wants to get his hands on the UA film library and its collection of James Bond, Rocky and Pink Panther movies.

Ross is not unsettled either by debt or controversy. Mr Parretti, he opines with a grin, "is a very likeable person and a visionary."

As for the \$10.6bn of debt, he points out that \$3bn of it is in bank loans which are serviced at rates below the US prime.

"I've also got cash flow of \$2.4bn, which covers our interest charges more than twice. No one seems to realise that. If I said our debt was \$500m and we had cash flow of \$240m you wouldn't worry, but add a zero or two and people worry," he says.

Ross may downplay the cost of debt servicing but he does admit that Time Warner's overall strategy has been set back about a year by the debt burden. He also agrees it will take time to integrate the synergies of Time and Warner, which have disparate corporate cultures.

This is an issue the two merged companies have handled with delicacy. Since the merger, Ross has been co-chairman and co-CEO of Time Warner with Richard Murdoch, a former Time and Warner, which have disparate corporate cultures.

When he retires next month, "Nick" Nicholas, a veteran



'My goal is to create the world's most successful media company'

Time executive, will succeed Murdoch as co-chief executive. The mild-mannered Nicholas says: "Steve is a founder and I am not. Steve founded Warner and built it up and there are certain proprietorial instincts in a founder. Steve is more entrepreneurial than I am."

Other friends and colleagues describe Ross variously as "a dreamer" or a "corporate prince." Seated in his 28th floor midtown suite of offices — a huge palm tree and cityscape view of the Empire State Building behind him — Ross seems to like the first description.

After a modest education, Ross moved from selling swimwear to work for his father-in-law's funeral home business, expanding it in the 1950s into limousine and car rentals, car parks and office cleaning.

In 1969 he bought Warner Brothers-Seven Arts, a loss-making film and record company.

In the early 1970s Ross "went Hollywood" in a big way, combining social ambition with a fat cheque book. He cultivated dozens of stars, but he also had vision, investing in the fledgling cable television industry before its potential was understood and building Warner's

1989 alone he saw off Paramount's blistering attack on the Time Warner deal and then battled the combined forces of Sony of Japan and film producers Peter Guber and Jon Peters, who were allowed to walk away from Warner last year to run Sony's Columbia Pictures only after the payment to Warner of a settlement worth hundreds of millions of dollars.

The ability to bounce back must be in Ross's blood. "My father lost everything in 1929 and couldn't get a job until the 1940s," he recalls.

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In the early 1970s Ross "went Hollywood" in a big way, combining social ambition with a fat cheque book. He cultivated dozens of stars, but he also had vision, investing in the fledgling cable television industry before its potential was understood and building Warner's

WEA record business into the biggest in the world. Looking ahead, Ross lays great stress on his debt-reducing and globalisation strategies. He says he is "enormously bullish" about forging links with European media and entertainment companies.

"We have been inundated with offers from around the world and Europe is certainly exploding. The privatisation of television in Europe means they need product to broadcast. In Europe there will be more choice than ever among more delivery options. For Time Warner this is a great prospect."

Warner derives 40 per cent of its revenues from outside the US and its international expansion plans may fit nicely alongside his debt-cutting strategy. One way of pursuing the two goals simultaneously would be to sell partial control of major assets.

"I can see the prospect of a joint venture where we take assets in the entertainment business and merge them into a tri-continental venture where we retain 50 per cent control and sell 25 per cent each to European and Japanese companies," says Ross. He declines to

be drawn on which division he has in mind. But analysts speculate that this might happen in the cable television and programming businesses.

For the future, Ross's horizons are typically broad. "Anyone who says he can predict with any certainty the landscape is really fooling himself, but think of what may happen in the media when television correspondents can file from personal, hand-held transmitters. Think about the media and entertainment market in eastern Europe when they have market economies."

"Think about what could happen if China some day abandons Communism. Think about the demand for entertainment product and infant technologies that we are investing in such as laser discs and pay-per-view cable television."

Ross seems to be one entrepreneur who actually believes his own PR. Witness his grandiloquent letter to Time Warner shareholders for 1989. "A new era in human history has begun," he concludes. "In spirit, if not in fact, we have already entered the 21st century. The world is our audience."

No need for anomaly of blasphemy laws

The prevalent and predominant mores of British society have their roots deeply embedded in the doctrines of Christianity. It is this inescapable fact that determines inevitably that the High Court would reject the argument of the Muslim minority in this country that the law of blasphemy can extend to religions other than Christianity.

The Church of England remains its incongruous position as the established Church conferring, among other things, the right of bishops to 26 seats in the House of Lords. The monarch must be an Anglican and is titular head of the Church. Until 1974, it was doubtful whether even a Roman Catholic could become Lord Chancellor. Ordained clergy of the Church of England cannot sit in the House of Commons. In spite of increasing secularisation, recognises by institutional reform and changes in the law, the metamorphosis is incomplete. Disestablishment of the Church has not taken place. Many issues of social and legal policy contain strong Christian overtones. The views of religious leaders are reflected in attitudes to crime and punishment and to the sanctity of human life. Sometimes, as with abortion and embryology, the Church has a direct influence upon legal development.

For all its underpinning of Christian values, Britain is not, and never has been, either ethnically or religiously homogeneous. Minority religions and racial groups have made their views felt and even undermined the rationality of the case for maintaining an established Church. Laws appropriate to an age which witnessed non-conformity as synonymous with heresy have required (but not always received) updating to accommodate the needs of a manifestly and self-consciously pluralist society.

It was pluralism that led Lord Scarman in his judgment in the Gay News case in 1976 to advocate extension of the law of blasphemy to cover all reli-



JUSTINIAN

gions (Lord Scarman has recently recanted). In so doing, he revived a debate that had remained quiescent for almost the whole of this century. By the end of the 19th century, the courts had detached the civil law from its uneasy union with the doctrines of the church which no longer exercised a monopoly of spiritual power in British society. In 1917, the House of Lords, when considering the issue of the validity of a charitable bequest, underlined that division. Their lordships held that the objects of a company were not criminal

because of its denial of the validity of Christianity (the company was the Secular Society). Three years earlier, the Attorney-General, Sir John Simon, had been asked by the Home Secretary for his opinion upon the state of the law of blasphemy. He concluded that prosecutions in modern times were extremely rare. And he recommended that the law should be amended to provide that complications, intended in good faith to propagate opinions on religious subjects, should not, in the absence of obscene or indecent matter, be deemed blasphemous.

Obsolescent as the crime of blasphemy then was, there were predictions that, short of its abolition by Parliament, the law might still be sprung upon a hapless and unsuspecting defendant. And so it was. Until 1976, there had been only one prosecution for blasphemy in the whole of the century. In 1972, the Court of Criminal Appeal held, in effect, that causing offence to someone of strong religious feeling was not to be the true test of what constituted blasphemy: "the real issue is whether they might provoke a breach of the peace by anyone sympathetic to Christian ideals even though not a practising Christian."

The weapon of the law was unsheathed by the private prosecution against the publishers of Gay News. It succeeded, although a minority of the judges in the House of Lords said that the publishers' intention in good faith not to offend was a defence. The revival of this anomalous crime did not sit easily with contemporary attitudes. Prosecutors were interested in retaining the crime of blasphemy only where it impinged upon public order, where the law has a far more potent weapon at its disposal, such as the Public Order Act 1986 as brought up to date in 1988, and the race relations legislation. The authorities have no need of a separate criminal offence, and would not wish to perpetuate its anomalous character by deploying it against the scurrilous detractors of Christianity.

Religious leaders adopt a similar approach. In a society, with a plurality of faiths and a strong vein of agnosticism and atheism running through the body politic, the Church of England has much to lose in trying to assert its earlier pre-eminence by trying to breathe new life into relics of ecclesiastical law. In any event, the Anglican Church best demonstrates its traditional tolerance for the free expression of opinion by not becoming overfused by attacks — even intemperate ones — on Christianity. Other religions would do well to emulate such a stoical attitude.

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SECTION III

FINANCIAL TIMES SURVEY



Economic success and changes in eastern Europe have led to new foreign

expression in the EC presidency, writes John Wyles. Yet this cannot hide social and economic problems at home, which are still too easily evaded by the nation's politicians.

Dynamic but deadlocked

HOW IS it possible at the same time to be extremely optimistic about Italy's future and frequently to despair of its present?

This question torments those many observers who are excited by the widespread evidence of social and economic dynamism in Italy, but depressed by a daily diet of political deadlock and malfeasance, mafia crime, environmental pollution and crisis in public finances.

At times, this continual bombardment invites the conclusion that Italy must be heading for a future of widening and deepening political corruption, probably manipulated by the mafia, governmental bankruptcy and declining social and economic standards. Such a national collapse is highly unlikely and would, indeed, be inconceivable were it not for the battle which is raging perpetually in the Italian character between the forces of self-destructive irresponsibility and those of responsible pragmatism.

There have been periods in the past 40 years when the darkest, destructive side appeared to be gaining the upper hand, memories are still fresh of the darkest periods when

terrorism, combined with shop-floor strife and economic mismanagement, seemed to threaten disaster. But pragmatism triumphed in the 1980s, and brought in a new era of economic growth and social stability, the fruits of which will be very much on display in the lavish and expensive production of this June's World Cup soccer tournament.

Moreover, Italian irresponsibility is not always destructive. If rules and regulations were slavishly applied and complied with, then the thousands of small and medium-sized businesses operating within or at the margins of the black economy would not exist as employment and wealth-creating mechanisms. The state may lament its loss of tax revenues, but it does not underestimate the black economy's value as a social stabiliser.

Italy's extraordinary economic development over the last 40 years — in many ways no less an achievement than those of Japan and West Germany — has been made possible by that rich endowment of creativity, flexibility, improvisation and pragmatism, which also justifies real optimism about the country's future.

Italians themselves firmly believe that these qualities, when allied to new technologies, give them an edge in the market-place. Mr Gianni De Michelis, the Italian foreign minister, never tires of pointing out that imagination and a readiness to abandon old formulae are now at a premium in a continent where all longstanding political and economic assumptions have been swept away in a matter of months.

Certainly, Italians have been readier than many to seize the opportunities, and to run the risks, evident in the opening up of eastern Europe. Fiat, for one, has set an impressive example with its commitment to act as midwife at the birth of a new, modernised Soviet car industry dedicated to meeting western standards on quality and fully accounted price.

Similarly ambitious, Mr Raul Gardini's Ferruzzi group is involved in a very broad project to transform maize, soya and sugar-beet production in the Ukraine and to develop a food processing industry alongside it. Now that West German



■ If Occhetto's reformed Communists reach the penalty box, would Craxi award the knock-out goal against Forlani? See page 2

ITALY

industrial energies will be so absorbed in its eastern region, it is quite likely that Italian business ambition and aggression will snatch the leading role in exploiting commercial opportunities in eastern Europe.

Exporting continues to be a formidable Italian talent — in 1989 the country's manufacturers increased their share of world markets for a range of engineering products. By investing in new processes and moving towards higher value-added products, Italian

manufacturers continue to prosper in markets for "traditional" products in leather goods, clothing and furniture, which analysts once thought would have to be ceded to newly industrialised countries. This economic success, coupled with the changes in eastern Europe and the Soviet Union, is generating a new activism in Italian foreign policy — very much symbolised by the extremely self-confident, highly active Mr De Michelis.

With the opening up of eastern Europe and new attentive-

ness to the Mediterranean, Italy now has three spheres of foreign policy where, until recently, it had only one — the European Community. Rome's desire for a greater influence in both Europe and the Mediterranean will find its fullest expression in the second half of the year, when Italy succeeds Ireland in the EC presidency. For Italy, the Community is a perpetual source of stern challenges which provide the motive power for reforms that might otherwise need an eternity to implement. Thus, the phased removal of all restrictions on capital movements by July 1, now almost completed, and in January the placing of the lira in the European Monetary System's narrow fluctuation band used by all other currencies of long established EC members, had two clear purposes.

One was to bolster Italian claims to be a serious leader of the Community's push towards economic and political integration. The other was to step up the external pressures on Italian parliamentarians to make the hard political choices in budgetary, financial and industrial policies which will render Italy a somewhat less anomalous, and exposed, member of the European economy.

It is one of the many Italian paradoxes that a political system which is highly inefficient and, arguably, fundamentally irresponsible has a sharp sense of the correct strategic choices. The question remains, however, as to whether the penalties imposed by current institutional arrangements and political practices may not become a dangerously heavy burden in the 1990s.

This survey offers many details of the shortcomings of Italian public administration, deficient public services, and policy requirements which have been ignored for decades. If Italians themselves did not generally have such low expectations of their state and did not expect to have to make their own arrangements to obtain services which are taken for granted elsewhere in Europe, then one doubts if the political system could have survived.

But it would be naive to believe that there is no price to be paid for non-performance — indeed, racial tensions, energy shortages, rising drug addiction and some appalling environmental problems are com-

monplace materials which may easily ignite in the near future. Some politicians have long recognised that the problem lies in the absence of real accountability in the system of government, which is partly a product of a highly proportional electoral system which gives full expression to Italian political individualism, and partly of the difficulties of creating an alternative to more than 40 years of Christian Democrat-dominated governments.

The Italian Communist party's bid to present itself as a real alternative by abandoning its name and its Marxist ideology offers some hope of a political realignment on the centre and left which might offer Italians the opportunity to vote for a government when they vote for a party. But the process could still be a long one, and in the meantime the occupation of public institutions and agencies by the governing parties — principally the DC and the Socialists — continues apace.

The result of this *governo*, as it is called, is a near total lack of transparency and accountability, which is not helped by a judiciary that is dubiously compromised by political penetration. The relationship between business and politics, based on cash for favours, remains very much in the shadows, while formal legal attempts to allocate responsibilities for mafia murders, financial corruption and even an aircraft disaster, frequently fold in the face of superior political powers to cover-up the truth.

The need to make its politicians accountable is perhaps the greatest challenge facing Italy which, if not confronted, may progressively weaken the nation's capacity to deal with its many other policy challenges. But do the Italians want responsibility? For the moment, there is no reason to dispute the dispassionate and pessimistic judgment of Enzo Biagi, one of Italy's best journalists:

"We are full of passionless sinners. And this induces so much indifference among people. I don't think the Italians believe in anything. In the past, this country has shown itself to have, in the most tragic moments, great resources of generosity and courage. Now it is all grey-ness."

IN THIS SURVEY

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ITALY 2

Politics

More needs to be done, and more quickly, to prepare the country for the European Community's open market — above all, in the realm of public finance. But the scent of the huddles may mean the delay of important choices.

■ Mr Andreotti closes an era of DC-Socialist conflict.
■ Mr Occhetto's dream party would capture between 30 and 40 per cent of the vote.
■ The Pope's dream Europe would stretch from the Atlantic to the Ural.

ITALIAN POLITICS are rarely easy to analyse, and even less easy to predict. However, here are three forecasts and one observation about the five-party coalition headed by Mr Giulio Andreotti, which was sworn in last July...

□ This will be the last Christian Democrat (DC)-led government before the next general elections.

□ These elections will certainly take place before the full parliamentary span expires in 1992.

□ The Communist party's (Pci) attempts to relaunch

Stability on the wane

Itself could even trigger an election this year; and
□ The coalition's stability is diminishing, because of sharp divisions within the DC.

Elections pump more stress into a political system that largely functions on stress. Local-government polls next month could tempt the coalition parties (the DC, the Socialists, the Social Democrats, the Republicans and the Liberals) to go for an unusual October election — if the Communist vote is in decline and theirs (the DC and the Socialists) is the ascendant.

But the scent of the huddles is not the only reason why the Italian political system is under strain. Another is the knowledge that more needs to be done more quickly to prepare Italy for the European Community's open market — above all, in the realm of public finance, where the aim of bringing the Gov-

ernment's deficit under control is inexorably pushing the parties towards difficult choices on health and welfare which have hitherto been evaded.

Elections — even just the thought of them — induces political paralysis in Italy, which means that none of these choices would be made this year if a general election seemed likely.

Now would there be much possibility of passing separate items of legislation currently before parliament that would open up the state banking system to minority privatisation, impose competition rules on Italy's handful of financial and industrial conglomerates, reform the stock exchange, and allow for the creation of modern financial services companies.

Would elections this year or next change anything? There is a sliding scale of possibilities. At one extreme is the highly unlikely event that the

re-elected Pci might manage to increase its vote significantly, to the extent that it could form an alternative government with Socialist and other support.

Less improbable is a sufficient increase in support for the new party of the left that the Socialists might feel the need to join it in opposition and leave the DC to govern on a minority basis. Such a scenario would increase the likelihood of a broad-based alliance, between the new party and the Socialists, at the next elections but one.

What is most likely is that elections might conclude that the new party is the old Pci under a different name and continue to drift away. This would probably strengthen the fragmentation of parties — there are already 14 in the parliament — and leave the DC and the Socialists to continue running the country.

John Wyles

La Cosa's triple plan

A DESIRE to achieve a genuine alternation of governments prompts many Italians to wish the Communist party (Pci) well in its attempt to reform itself as a democratic party of the left.

But a recognition of the limitations of Italian politicians, and of the characteristics of the Pci itself, leads many to doubt whether the exercise can succeed.

Mr Achille Occhetto, the Pci leader, has a dream of launch-

COMMUNISM

ing a "new" party capable of holding the Pci's solid, if not majority, support among the northern urban working class, but which also attracts votes from progressive Catholics, middle-class professionals, small shopkeepers, women of all denominations and the idealistically youthful.

His dream party would capture between 30 and 40 per cent of the vote, and would lead a coalition government consisting of, certainly, Mr Bettino Craxi's Socialists together with the very small Radical and Christian Democrat parties. The Christian Democrats would go into opposition.

This is not an impossible dream to make reality, merely an extraordinarily difficult

one. La Cosa ("the thing", as Mr Occhetto's new party is known, since it will have no name until a final congress launches it at the end of the year) starts from the Pci's current base of 37 per cent of the vote, but it needs strong powers of attraction to overcome the immobility of Italian voting behaviour. In recent years, the most numerically significant change has been in the growing number of non-voters or spoiled ballots.

Mr Occhetto's strategy is built on three legs: creating a democratic party of the left, dedicated to liberty and justice; securing its external endorsement through membership of the International Socialist movement; forging an electoral alliance on policy with the Socialists, without whose 15 per cent and slowly rising share of the vote no alternative majority is possible.

In every sense, the Socialists are central to the construction of these three pillars. La Cosa would not be allowed into the International Socialist movement without Mr Craxi's vesp, and an electoral alliance is not possible without a convergence on policies and values. Within the current Italian political framework, as fixed by the constitution and the electoral system,

it is difficult to see how the Socialists could avoid being overshadowed and squeezed by a larger, non-communist socialist grouping.

Which is why Mr Craxi is sending clear signals to the Communists that unity of the left can only be based on a different political order centred on direct election of the President of the Republic or of the prime minister, greater regional autonomy and, possibly, electoral reform. This would then create the possibility of Mr Craxi's heading an alternative governing line-up as the left's candidate for president or prime minister and, also, of possibly managing a reverse take-over of La Cosa.

Mr Occhetto is making interested noises to these overtures, but may have considerable difficulty in taking his party with him. Except for the Pci's right-wing headed by Mr Giorgio Napolitano, there is a visceral distaste for Mr Craxi and his party throughout the Italian Communist movement. The Pci's sense of identity, which will not immediately be abandoned for La Cosa, is based on its sense of being a qualitatively different party which has made fewer corrupting compromises in the pursuit of power, and which seeks to mobilise dissent and discontent

with the existing political and economic system.

While two thirds of this party voted with Mr Occhetto at the party's March congress, in Bologna, a very strong one third opposes both his strategy and the apparently liberal democratic values which inspire it. In order to hold his party together, Mr Occhetto has already been forced to make concessions on issues such as the future of a united Germany — outside Nato and demilitarised — which are far distant from Socialist positions, and he will surely make others on economic and social policies.

He will then run the risk, both with the public and with the wider public, of creating the impression that his new party is merely the old Communist party — admittedly, in more genuine democratic clothing, but still narrowly class-based in its view of the world and more committed to "struggle" than to government. Mr Craxi would try to exploit such an impression, believing that the post-Communist Pci vote will continue to erode and that time and patience will enable him to lead the Italian left from a dominant, rather than a subordinate position. In the meantime, he would continue to augment Socialist power in Italian institutions by partnering the Christian Democrats in government.

John Wyles

Tensions are beginning to show

GIULIO ANDREOTTI's return to the prime minister's office in the Palazzo Chigi last July in many ways marked the end of an era, without clearly signalling the start of a new one.

Within his own Christian Democrat party, the Andreotti premiership signified the final eviction from power of Mr Ciriaco De Mita, who had led the DC for seven years until Febru-

ary 1989; while it also symbolised a more relaxed and confident relationship with Mr Bettino Craxi's Socialists.

THE COALITION

Finally, it promised a more effective period of government, both because of the new harmony between the coalition's two main parties, the DC and the Socialists, and because there is no one more skilled than Mr Andreotti at reconciling differences.

Within three months, the CAF had made its debut as a new political phenomenon in Italy. Craxi-Andreotti-together with the third member of the trio (Forlani) appeared to have reached a sufficiently solid understanding as to impose an unusual and rather disturbing tranquillity over Italian politics. This was mainly possible because Arnaldo Forlani, who suc-

ceeded Mr De Mita as DC secretary, was much less disposed to confront Mr Craxi as his predecessor had done and, therefore, was much more trusted by the Socialist leader.

If Mr Andreotti was seen as closing an era of DC-Socialist conflict within governing coalitions, he was also seen as being the third and last credible DC prime minister of the current parliament. One of the CAF's unspoken founding agreements was that the parliament would be dissolved for elections in June 1991 — a year before its natural expiry. According to this scenario, Mr Craxi would take over as prime minister after the next elections, while Mr Andreotti may even be a candidate to succeed Francesco Cossiga as president of Italy in mid-1992.

This script has not been abandoned, but it is now less clear whether the principals will be able to stick to it, for at least three reasons.

The first is that Mr Achille Occhetto's bid to relaunch his Communist party as a new democratic socialist force has introduced a new and potentially destabilising element into the political process. The second is that intra-coalition tensions, which would normally be induced by the approach of nationwide local

government elections in May, are being exacerbated by unexpected sharp disagreements over policies. The third is that Mr Andreotti is clearly failing to make headway on any of the priorities he set for his coalition in his programme speech.

Having secured the passage of the 1990 budget by last December 31 — which is a major effort for any Italian government — the Andreotti coalition is steadily losing its way. The fight against the Mafia — a key priority of last summer — is languishing in a mire of politically-inspired attacks on the Anti-Mafia Commissioner, Mr Domenico Sica.

The budget deficit target for 1990 has become evidently unattainable within three months of its adoption without fresh action on revenues and spending. Reform legislation on anti-trust, financial markets, media concentration and drug trafficking is making very little headway, while monthly cabinet meetings on European Community issues have failed to materialise since they were promised last July.

Characteristically, Mr Andreotti has sought to minimise the importance of such political conflict while rejecting complaints about his government's performance. A source of some encouragement

for those wishing to see a faster pace of reform is the fact that the DC left, led by De Mita, has gone into internal "opposition", and its members have pulled out of all posts in the party leadership.

This group is not only pressing for genuine progress on such matters as anti-trust, but is also encouraging its allies in the media — notably the top-selling La Repubblica newspaper — to focus on the less visible and frequently perplexing aspects of Mr Andreotti's stewardship. The DC left may become a smoking gun ready to encourage any attempt to bring down the coalition.

Bettino Craxi remains, however, the man most likely to accomplish this task if he concludes that there is an advantage to be had from general elections later this year.

With an eye to the local polls, Mr Craxi manifested clear dissatisfaction with the Government's performance at his party's Rimini congress last month, and a readiness to use the split in the DC as a pretext for walking out of the coalition.

If the Socialists come away with good result in early May, the odds will shorten on an election in the autumn.

John Wyles

A new star in the east

FEW HEADS of state can claim such spectacular successes in foreign policy during the past year as Pope John Paul II.

Diplomatic relations with Poland and Hungary have been re-established, and the Church in Czechoslovakia has been restored to full strength for the first time since the war.

In mid-March, the Vatican put the Romanian church back

THE VATICAN

on its feet in one fell swoop, appointing 12 bishops in a single day, thus restoring the Roman and Eastern rite churches there to their pre-war strength. Stalin's 1948 decree had not only prevented Catholics in Romania from worshipping freely, but had forcibly incorporated the Eastern Catholic church into the Orthodox.

Interestingly, two of the eastern-rite bishops appointed are well over the normal Vatican retirement age of 75 — a condition which has been waived in recognition of their sufferings for the church.

But the greatest coup was the announcement, just over a month ago, of the exchange of ambassadors with the Soviet Union, restoring diplomatic contacts for the first time since 1923. The Pope has also received the coveted invitation to visit Russia. This was perhaps a foregone conclusion, after the moving encounter between the two heads of state in the Vatican on December 1; but it is still a triumph, and brings the Pope one step nearer to the realisation of his vision of a united Europe, stretching from the Atlantic to the Ural.

This is a vision he shares with his secretary of state, Cardinal Agostino Casaroli, who has held the post since the Pope's election in 1978, but has been concerned with maintaining contact with the socialist regimes, including China, for 20 odd years.

Casaroli and Wojtyla are very different in personality: the Pope passionate, extrovert and decisive; his secretary of state, restrained, flexible (up to a certain point) and diplomatic. Both are exceptional linguists.

Casaroli celebrated his 76th birthday last November, and although cardinals do not have to retire until 80, a young and energetic deputy has already been appointed for him: the energetic Brescian Monsignor Giovanni Battista Re.

Monsignor Re takes the place of the Australian bishop Edward Cassidy, who, as a "close collaborator" of the Pope, was needed to take charge of key negotiations on the restoration of full religious rights to the Ukrainian Catholics, about which the Pope feels strongly.

Although the advent of a Polish pope gave the Vatican's policy of *rapprochement* towards the former Iron-Curtain countries considerable impetus, Casaroli claims that it was the extraordinary warmth of personality of Pope John XXIII that began the thaw. It might even be said to have started with a Christmas card, sent to an astonished and delighted Pope John by Krushchev, in 1961 — a gesture that was repeated the following year.

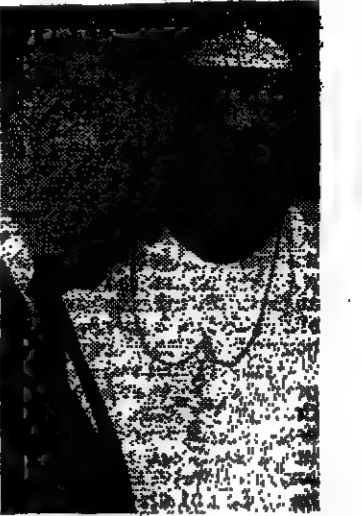
Gromyko subsequently visited the Vatican six times: four during the papacy of Paul VI, and twice during that of Wojtyla, in 1979 and 1985.

Feeling perhaps that more has been achieved, and more rapidly than anyone could have expected, in terms of Catholicism, the Pope is now turning his attention more frequently to domestic policy. His aim is to re-convert western

Europe, and more particularly Italy, from what he sees as rampant materialism, hedonism, and consumerism.

One of his most attractive qualities is his empathy with workers. On a recent visit to Olivetti's factory at Ivrea, near Turin, he found himself bemused by computer technology, but surprised trade union officials by echoing precisely their own fears concerning the threat it posed to employment. "Profit alone is not enough," is the message.

He has also intervened in local politics, hurling the equivalent of a thunderbolt at the Christian Democrat wing of the Rome city council during last autumn's local elections, when, through the mouth of the Cardinal Vicar of Rome, Ugo Poletti, the faithful were invited to vote "yes" for the Christian Democrats, as they have in every election in the last 40 years, but this time



And he's been invited back.

"with repentance". This was an indication of Vatican disaste for the macabre use made by that party of Catholic youth groups.

Jennifer Grange

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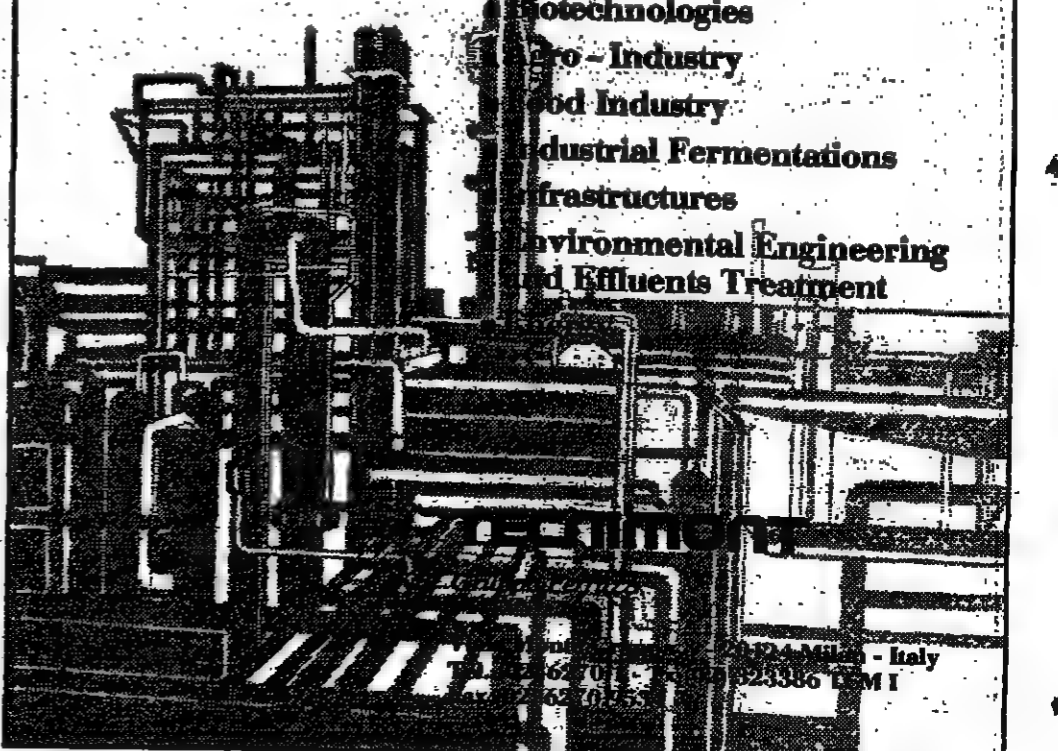


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Foreign policy

Presidency of the EC could enable Italy to give a push to the European integration process, and provide a framework for managing German unification. Those who'll take the stage include:

- A prime minister who has known the world's top leaders for the past 35 years;
- A foreign minister who sees a unique role for his country; and
- A treasury minister with four languages and few detractors.

ITALIAN EFFORTS, clearly evident during the 1980s, to develop a more active and influential role in international affairs will reach a climax over the presidency of the European Community.

The platform is one which will be relished by the two men who are currently managing Italian foreign policy: Mr Giulio Andreotti, foreign minister for most of the 1980s and now prime minister; and Mr Gianni De Michelis, the flamboyant, intellectually vivacious Socialist who succeeds Mr Andreotti at the Farnesina next July.

They make an odd couple: Andreotti, the deeply experi-

A platform to relish

enced "old wolf" who speaks in aphorisms, and De Michelis, the formidably self-confident foreign policy novice who is a compulsive communicator.

Both are anxious that the Italian presidency should be seen as giving a push to the European integration process — not just as a desirable end in itself, but also as a framework for managing German unification.

Preparing the intergovernmental conference on European Monetary Union, which is due to open in December, will be one of the key tasks on this front. But Rome is also seeking to force the pace on integration with a proposal, supported by the European Commission, that a second intergovernmental conference sit in parallel to negotiate, among other things, additional powers of control and surveillance for the European Parliament.

Mr De Michelis has been more than a little resentful about Italy's exclusion from the "two plus four" formula

which will directly involve the wartime victors in discussing German unification with Bonn and East Berlin. He will continue to argue that the international imprimatur for unification, and the related issues of borders and the future of the Nato and Warsaw Pacts, must be finally settled within the framework of the Helsinki process and of the Conference on Security and Co-operation in Europe.

Italy has not been slow in developing its own lines of communication and commercial interests with Moscow and east European capitals. A system of regular meetings at Foreign Ministers' level between Moscow and Rome was agreed during Mr Gorbachev's visit to Rome last November, while a quadripartite relationship, agreed in the same month with Austria, Hungary and Yugoslavia, is a new Italian attempt to launch regional co-operation.

Czechoslovakia may soon join this grouping, which aims to develop economic and technical co-operation and a

relaxation of travel restrictions. Mr De Michelis' purpose is to bind eastern European countries as closely as possible to western Europe's economic and political structures, according to the concentric-circles concept. This postulates a politically unified EC at the centre of a collaborative system which has the Efta countries and then eastern Europe as orbiting satellites.

Rome is constantly stressing that its European preoccupations will not relegate relations with the Third World to some lower order of priority. Italian governments have made a huge effort in recent years to boost their aid programmes, which are now fifth in total volumes after the US, Japan, France and West Germany. Budget deficit problems, however, that aid to developing countries must fall as a proportion of national gross domestic product from 0.4 per cent in 1988 to 0.3 per cent in 1992.

John Wyles

ITALY 3

Indifferent to criticism

WHEN GUIDO Carli was sworn in as Italy's Treasury Minister last summer, he said that his advanced age — he was 76 on March 28 — would enable him to make unpopular decisions without undue concern.

"I've already had my career... My duty will be to disregard unpopularity," he

Profile
GUIDO CARLI

said, after taking custody of the lira and the Italian budgetary deficit.

Possibly the widely-respected Mr Carli was not expecting too much dissent. A highly-influential governor of the Bank of Italy for a record 15-year term, between 1960 and 1975, his unparalleled expertise in domestic and international economic and financial matters, together with his unusual outspokenness, make him an anomaly among Italian cabinet members.

On the international scene, Mr Carli — who speaks four languages — has few detractors. In January, he piloted

Italy through a major European test — passage to the narrow band of the EMS parities — and the removal of remaining restrictions of capital movements by July 1 is also expected to come off without a hitch.

But on the domestic scene, he may now have to make good his promise of studied indifference to criticism. After a mere eight months in office, the gaunt, high-cheeked Mr Carli has been running into sharp criticism from both allies and opponents.

Elected to the Senate on the Christian Democratic ticket in 1983, he has alienated many of his party colleagues by repeated calls for privatisation and divestment of public holdings as a means of plugging the holes in Italy's public sector finances.

Critics at the opposite end of the political spectrum have demonstrated equal disappointment. Why, they ask, hasn't the former central bank chief done more to counter the political spoils system — one of his longstanding dislikes — which

determines top public bank appointments? And why hasn't there been more progress in halting the erosion of Italy's public accounts? Overall Italian public debt now exceeds Lira billion, equal to 99 per cent of GDP (expected to rise to 100.5 per cent by the end of the year).

The 1990 Italian Budget Law officially limits the public sector borrowing requirement to L133,000bn, a shade less than last year's final deficit. But continued growth in government spending has led to forecasts that this year's deficit may run as high as L147,000bn.

The blame, of course, cannot be laid entirely at Mr Carli's door. His call for privatisation of the Government's non-productive real estate and financial holdings reflects his awareness of the underlying problems that plagued his predecessors: too many Italians are not paying their taxes, and cabinet ministers and political parties are still unwilling to put a firm lid on both spending and public sector salaries.

Controversy is not new to Mr



"I've already had my career"

Carli. After leaving the central bank, he served for four years as president of Confindustria, the Italian manufacturers' association. The question is how long he will be willing to put up with the current job's obvious frustrations.

Unlike the state's, his own personal finances are in excellent condition. Before returning to public life last year, he was a main board member of Fiat and a consultant for several foreign banks. Combined with his generous Bank of Italy pension, these activities reportedly gave him an annual income of more than L1bn.

Sari Gilbert

A pivotal role in Europe

ers, he says that "the UK is in a difficult position, feeling marginalised and oscillating between what was once a special relationship with the US and a fuller involvement in Europe."

West Germany, he adds, is caught up in its integration process and will be "less lucid" about other matters; while France is struggling to resolve "the ambiguity between wanting to lead Europe towards

integration and wanting to remain a classic 19th century nation state". Italy, by contrast, finds herself "most comfortable" with a situation that requires the Community simultaneously to take further steps towards economic and political integration, and to be involved in the creation of a new political and security order for Europe.

In defining the priorities of the Italian presidency, Mr De Michelis' quite unusual intelligence is very much focused on what he calls the "four dynamics" which are now shaping the European scene.

The first involves leading the EC forward towards economic and political integration.

Mr De Michelis' third dynamic is the search for a new "architecture", which would establish a security system for a Europe no longer divided into two hostile blocs.

The fourth is the process of German unification, which he recognises is a largely domestic affair which, none the less, has obvious external aspects, particularly in the field of security.

economic and political integration, through completion of the internal market, launching economic and monetary union and strengthening the democratic accountability of the Community's institutions.

The second is advancing east-west links in Europe through political and economic joint ventures, and creating a new category of relations with the Community through "super-association" agreements.

These would create a circle of states very closely collaborating with the EC — initially consisting of the Efta countries — which the countries of eastern Europe would be able to join once they had reached a certain level of economic development.

Mr De Michelis' third dynamic is the search for a new "architecture", which would establish a security system for a Europe no longer divided into two hostile blocs.

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refusal to bring forward the conference set for December, Italy now believes that a commitment can be had from the 12 to reach agreement by the spring of 1991 on the shape of monetary union and the steps needed to achieve it, including the creation of a European central bank.

"This means that we want to have a draft treaty ready for the conference in December," says Mr De Michelis.

He hopes that the conference on reforming the treaties will be launched in parallel with the effort on monetary union, and that it will be given a target for agreement within the second half of 1991. The objec-

tives should be to introduce full majority voting on all matters where it is allowed for in the current treaties, and to increase the European parliament's powers of initiative and its control over the Commission.

Mediterranean policy and immigration also loom large in Italian ambitions. Italy and the European Commission seem to be at one in believing that the 12 must channel more aid for economic development to the countries around the southern Mediterranean littoral — not least because Europe in general, and Italy in particular, wish to limit those countries' emigration flows and will probably impose entry-visa requirements on their citizens later this year.

Mr De Michelis also would like to line up the Community behind his idea for a "Mediterranean Helsinki", which would launch a process for widening individual and social liberties in the area as well as military detente.

The Italian foreign minister says he sees the Community presidency task as one of being "the director of an orchestra". Not even a year ago could anyone have believed that the musical score would have been quite so complicated or needing a tempo of allegro vivace.

John Wyles takes a flight with GIANNI DE MICHELIS

Harmony before change

"A MIDDLE way has to be found," is the guiding spirit of Italian politics, and there should be no surprise that the nation's finest exponent of this philosophy should have been the man who uttered these words last December.

Now heading his sixth government, Giulio Andreotti is the master of mediation who has built his 43 years, close to or in the senior offices of State, on the necessity of finding "the

middle way" between conflicting interests.

It is an impulse which also finds fine and full expression in European Community politics. As Italy's foreign minister, Mr Andreotti's management of the EC's General Affairs Council during the last Italian presidency, in 1985, drew many plaudits for his ability to conjure agreement out of conflict.

As prime minister, the 71-year-old Christian Democrat will be superbly equipped to steer the Community summit in Rome in December through the rocky shallows which it will inevitably encounter.

A man who never loses his

head when all around are losing theirs, Mr Andreotti remains something of an enigma. Very much a product of the Italian Catholic culture — he is still assiduous in his attendance at mass — it is never very clear what he stands for. He has stood on both the left and the right of his party, has led a government which depended on Communist support, is the friend of many businessmen but is in nobody's pocket.

Above all, perhaps, he believes in the primacy of politics: that a government establishes its authority not by the strength, attractions and determined execution of its programme but by its ability to reconcile differences. Andreotti governments do not exist to change the world but to create harmony between conflicting forces, be they inside or outside Italy, in the interests of maintaining peace, social or otherwise.

As a result, the Andreotti act is not one for the impatient, nor necessarily one for a country which needs legislative changes in a hurry. He is rarely a man to hurry his search for compromise, believing that there is a rhythm in

politics which must be respected. People and institutions in conflict, he believes, eventually arrive at a sense of their common interests.

There are no more acute powers of political judgment in Italy, where governing coalitions are condemned to frequent internecine warfare. Mr Andreotti's style of managing coalitions is to minimise differences and avoid frontal confrontations. If the policy outcome is ineffective or incoherent, then so be it.

On the foreign policy front, there is no more experienced politician in Europe, since he has known all of the world's top political leaders of the last 35 years. As foreign minister for most of the 1980s, he successfully carved out a measure of autonomy for Italian policy, particularly over Middle East affairs, but also in relations with the superpowers. He firmly believes in the need to maintain the US commitment to security in Europe, and can find no enthusiasm for German unification, which he sees as further strengthening an already overwhelming case for European political integration.

John Wyles

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Economic Challenges

A new attack on spending and revenues is likely in May, but whether it will eliminate the L14,000bn expected overrun on the L138,000bn budget deficit target remains to be seen.

- Public spending remains the problem. The Government will need to stick to its deficit-cutting guns.
- Reliance on electricity imports continues to make Italy vulnerable.

THE ITALIAN economy is a like a brave steppichaser, somewhat careless in its approach to obstacles which are always threatening to bring it down.

The fact that Italy has managed to grow at a rate of around 0.5 percentage points above the EC average over the last seven years is certain testimony to the economy's quality. At the same time, decisions to free all capital movements by July and to put the lira into the European Monetary System's narrower 2.25 per cent fluctuation band in January testify to Italian ambition to stand on equal terms with the other large EC economies.

However, there are certain obstacles, above all public finances, which pose more difficult tests as each year passes. Upward movements in domestic and international interest rates are putting a heavy toll on government debt raising and servicing —

The jumps are getting higher

Interest costs rose 20 per cent last year and are already forecast to go up by 17 per cent this year without any further increases in international rates. A new attack on spending and revenues is now likely in May, but whether it will eliminate the L14,000bn expected overrun on this year's L138,000bn budget deficit target (10.4 per cent of GDP) remains to be seen.

The impact on the deficit of negotiations on new pay contracts for employees in the public administration is still uncertain. The Government is committed to giving no more than one percentage point above expected inflation, but it rarely succeeds in holding the line on such matters. The Bank of Italy forecasts 9 per cent rises in public salaries this year and is worried about the way in which this is emerging as a target for private sector pay deals in key sectors.

While the Government has just raised its inflation forecast for this year from 4.5 per cent to 5 per cent, Confindustria, the main representative of Italian industry, has been preparing the ground for this year's pay round with frequent warnings about rising

labour costs and declining competitiveness. Unit labour costs certainly rose by 6 per cent last year, after a 5 per cent increase the year before, while the growth of manufacturing productivity fell back slightly from 4.2 per cent in 1988 to 3 per cent last year. At the same time, the robustness of the lira against other EC currencies reduced its competitiveness in real terms by 3 points.

The balance of payments deficit on the current account rose from L6,779bn in 1988 to L15,060bn, but net capital inflows, including through the banking system, were greatly stimulated by interest rate levels and the stability of the lira and leaped from L25,000bn to L38,000bn.

Energy costs are the Achilles' heel. Any serious increase in energy prices, or a further strong rise in the dollar, could push up capital outflows and undermine the lira. Interest rates would then have to take the strain, confirming the budget deficit as the largest fence the economy has to clear if it is to reach the winner's enclosure in the 1990s.

John Wyles

ITALY 4

EVEN BEFORE Mr Franco Viezzoli, chairman of the state electricity corporation ENEL, admitted to the Senate Industry Commission in February that Italy had become dependent on imports, it was clear that energy, and particularly electricity, was a high-risk factor in the economic-industrial equation.

Last year, Italy imported 33.7 terrawatt-hours, covering 14.7 per cent of its total electricity demand of 230.1TWh. Imports registered an increase of 7.7

ENERGY

per cent on 1988, and were more than five times greater than at the start of the decade. Electricity purchases from neighbouring countries, which increased sharply in the mid-1980s when cheap French electricity made better economics than producing with domestic capacity, are now necessary to ensure supply continuity.

However, Mr Viezzoli is not alone in expressing concern. Warnings about the precarious condition of electricity supplies came also from the Minister of Industry, Mr Adolfo Battaglia. With ENEL's peak load rising by 1,300 megawatts to 35,800MW last year and capacity only increasing by 600MW, he believes the corporation's ability to meet peak demand is placed in question.

One side of the problem faced by Italy's electricity industry is demand. This has moved ahead more sharply than expected, the increases of 5.1 per cent in 1988 and 4.1 per cent last year being about 50 per cent above the national energy plan's forecasts.

Italian energy demand					
	1985	1986	1987	1988	1989
Combustible solids	16.1	15.3	15.7	16.1	14.7
Natural gas	27.8	28.9	32.1	34.2	36.5
Primary electricity (T)	17.0	16.7	14.7	16.7	16.3
Oil	85.8	85.3	86.9	91.0	88.7
Others	0.3	0.3	0.3	0.3	0.3
TOTAL	146.3	147.5	152.7	157.3	161.5
Electricity (T) in TWh	195.0	199.5	208.8	220.8	229.1

Unit: million tonnes (T) includes hydro, geothermal, nuclear and imports; (T) includes primary electricity plus conventional. Sources: Unione Petroli, ENI and ENEL thermal

Dependent on the neighbours

Approved by the Government in summer 1988, the plan expects electricity demand to reach 275TWh in 1995 and between 290TWh and 315TWh at the end of the century. It is widely thought, however, that 1985's figure will be exceeded, and that the higher forecast for the year 2000 is too low.

Italy consumes much less per capita than its neighbours. Although the plan forecasts an increase in per capita consumption to 5,500 kilowatt-hours at the end of the century, from the current level of about 4,000kWh, this will still be less than in France and West Germany in the mid-1990s.

The other side of the problem is Italy's own supply capacity. In halting production from its three nuclear stations at the start of 1987, it deprived itself of 1,300 megawatts capacity. And the subsequent abandonment of the incomplete 2,000MW nuclear station at Montalto di Castro, north of Rome, aggravates the shortfall.

ENEL has, however, also faced serious difficulties in pushing ahead with its construction programme for conventional thermal plants. As the saga of the multi-fuel plants at Brindisi South and Gioia Tauro have shown, few Italians want power stations in their neighbourhoods.

When picketing shut down the operational station north of Brindisi last year, there were cheerleader power-cuts in southern Italy. But electricity black-outs are a national threat

until the capacity gap is closed.

An emergency programme for re-powering thermal units with gas turbines was approved at the end of 1988, and the rebuilding of Montalto di Castro as a conventional thermal plant is under way. However, the benefits will only start to be felt in 1992, provided there are no delays like those that have dogged ENEL's programmes in the past.

ENEL's chairman told the Senate Commission that electricity imports would increase until the mid-1990s. Even if ENEL's plant operates at maximum output, there will be serious shortages that can only be covered by purchases abroad.

Reliance on electricity imports makes Italy vulnerable. Mr Battaglia recently drew attention to the constraint

imposed by cross-border transmission lines, whose capacities are reaching saturation. And should France encounter problems with its nuclear plant, Italy would also suffer.

Talk of power-cuts has focused attention on the electricity sector, and Italy's overall energy situation has tended to slip from view. That 1988's national energy plan still awaits parliamentary approval reflects absence of concern.

Little has changed since energy awareness was heightened during the 1970s oil crisis. Imports continue to satisfy 30 per cent of overall energy requirements, imported hydrocarbons covering about 70 per cent. Aiming to reduce this high dependence, the state hydrocarbon holding corporation ENI will invest L4,500bn

over the next three years on developing the country's scarce indigenous resources.

ENI's chairman, Mr Gabriele Cagliari, notes that Italy's energy demand rose by 2.6 per cent last year, to reach 161.5m tonnes oil equivalent. However, in spite of demand growth and high imports, soft crude oil prices and a weak dollar mean the balance of payments suffers less now than at the start of the 1980s.

Though the threat of black-outs seems to be stimulating action in the electricity sector, real power-cuts are needed to generate a greater sense of urgency. Fitting Italy's overall energy accounts in order will probably have to wait until the next world energy crisis.

David Lane



Would power-cuts create a sense of urgency? Industry relies heavily on imported electricity

New rules helpful to the lira

CONTRARY TO expectations, this year's bold steps by the Italian Government to ease restrictions on residents buying short-term foreign securities and to narrow the lira's fluctuation bands within the European Monetary System, have not triggered the wave of flight capital or run on the currency that was once feared.

Indeed, the measures have, if

CAPITAL LIBERALISATION

anything, bolstered confidence in the lira, and in Italian economic management in general, despite continuing disquiet about the Government's willingness — or ability — to trim its huge budget deficit.

According to Mr Giles Keating, of Credit Suisse First Boston, in London, the positive market reaction to January's moves by the Italian authorities recalls the favourable response when the UK and French governments removed exchange controls in 1979 and the late 1980s respectively.

"Italy actually fits into the pattern," he says, noting that the Italians have followed the

trend of using the carrot of continuing high interest rates, rather than the stick of exchange controls, to maintain confidence in the currency and prevent a rush abroad.

Likewise, the decision to "normalise" the lira's EMS fluctuation bands to +/- 2.25 per cent of the central rate, rather than 6 per cent as before, has also been taken as a statement of confidence, which has so far had a favourable echo in the markets.

The lira was already one of the stronger performers in the EMS for much of 1989, until, in December, the central bank apparently dropped its policy of maintaining the "shadow" 2.25 per cent fluctuation band, pursued with considerable success during the year, to the extent that the Italian currency had at times proved embarrassingly strong against the Deutsche Mark.

Meanwhile, liberalising exchange controls has been a step-by-step process, ahead of the European Community's July 1 1990 deadline. An important milestone came in October 1988, when Italian residents were given the green light to

buy longer-term foreign securities. At that time, the decision to continue barring purchases of shorter-term instruments, defined as those with a maturity of less than six months, was explained by concern that such securities were barely distinguishable from legal tender, and therefore a speculative investment.

The decision, in mid-January, to remove the barrier on buying short-term instruments followed a move just a few days earlier to abolish the ban on Italians owning, for more than 120 days, any foreign currency acquired in return for the delivery of goods and services abroad.

As a result, only two restrictions remain to go before the July 1 deadline. Residents still cannot open foreign bank accounts; while there remains a ban on owning, for more than 120 days, any foreign currency bought directly in exchange for lire.

Many economists expect both restrictions will be dropped before July 1, with most bets on this month or next. The delay stems from the

simultaneous need to reduce Italy's 30 per cent withholding tax to a level that will make residents less likely to switch into foreign currencies as soon as they are given the chance.

While a reduction in withholding tax to 20 per cent is on the cards, the question of how the fiscal shortfall will be recouped remains unresolved — partly explaining the Government's reluctance to cut the tax already. Proposals for reform of capital gains tax on stocks and bonds, to plug the gap, are becalmed at present, leaving some doubts as to what form the fiscal quid pro quo for reducing withholding tax will take.

Meanwhile, the central bank maintains its aura of confidence. "Since EMS membership, the lira has appreciated in real terms, and has consequently attracted funds from abroad," notes a Bank of Italy official. The drop in inflation, from 20 per cent at the start of the 1980s to an apparent "bedrock" of 6-to-7 per cent now, has played its part in the process, as has Italy's massive economic restructuring in the 1980s and the more recent

steps to remove capital controls.

But the consensus remains that something must be done about the budget deficit — which already looks destined to overshoot the L138,000bn target for the year — in order to set the seal on Italy's financial "normalisation" within the European Community. "The signs are that the economy is slowing a little, with GDP growth likely to fall this year, below the almost 3.4 per cent we estimate for last year," notes Mr Nigel Rendell, of James Capel, in London. "And the trade figures also improved in the second half of last year."

Public spending remains the problem. Although the percentage share of the government deficit to GDP is set to drop to 10.4 per cent this year, from 11.1 per cent in 1988, the Government will need to stick to its deficit-cutting guns if the market is to be convinced. For that, in the end, will be far more important a criterion in shaping the market's response to Italian economic management than any amount of exchange control liberalisation or changes to the lira's EMS band.

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The shape of fairs to come

Financial Challenges

Italian banks are only at the beginning of a long, and undoubtedly painful, adjustment period.

But new rules should enable them to become more competitive, grouping financial services activities directly under the parent company.

The Enimont affair has done little to boost the already tarnished standing of the Milan bourse abroad.

LAST YEAR is likely to mark a profits record for Italy's big banks. Sustained economic growth, amounting to a 3.3 per cent rise in GDP in 1989, has spurred lending, while the Bank of Italy's high interest rate policy has allowed the banks sustained, and indeed enlarged, margins that remain the envy of Europe.

The upshot is surging profitability. Banco di Roma, the smallest of the three commercial banks controlled by the state holding company, more than doubled its net profits to L58bn in 1989. Credito Italiano and Banca Commerciale Italiana (BCI) are raising their dividends; and Mediobanca, the merchant bank at the heart of the state capital markets deals, raised pre-tax income before provisions by no less than 49 per cent in the second half of the year.

Even troubled Banca Nazionale del Lavoro, which is still smarting from last year's letters of credit scandal at its Atlanta branch, is bullish about its prospects. Despite a massive L499bn loss for 1989, largely on account of the need for additional provisions, the outlook for domestic banking is excellent, it says.

Yet beneath the surface, Italian banks are only at the beginning of a long, and undoubtedly painful, adjustment period. For Italian banking remains inefficient by the standards of many of Italy's north European neighbours, with over-investing and a need to rationalise the current 1,200 banks with over 13,000 branches in order to create bigger networks, thereby cutting costs, and improve the opportunities for cross selling between products.

Rivalries within the banks have in the past been exacerbated by the central bank itself. Though a paragon of independence and professionalism in an increasingly politicised financial system, the Bank of Italy's own strict rules — finally relaxed at the end of March — on new branch openings or rationalisations.

Euphoric but inefficient

have hampered change.

Yet despite the eccentricities of the Italian system, foreign interest remains as strong as ever, if not stronger. The \$503m that Deutsche Bank paid in December 1988 for Banca d'America's d'Italia now looks cheap against the \$390m stashed out last summer by Crédit Lyonnais for just 49 per cent of Credito Bergamasco, a solid Lombardy bank. If the level of outside interest stays at present levels, even that may seem a bargain to some.

But foreign banks looking to establish a bridgehead in Italy before 1992 need more than just fat cheque-books. For the high prices are grounded on the fact that few banks in Italy are for sale.

The American government's apparent antipathy to wide-scale privatisations — a policy which once found more sympathy within the Christian Democratic party — means that opportunities for breaking into the dominant state banking sector are virtually non-existent. Thus West Germany's Commerzbank and Spain's Hispano Americano de Banco are still waiting to invest in Banco di Roma as part of a wider restructuring of its ownership.

The lack of acquisition opportunities is even greater in the private sector. After almost falling victim to an apparent attempt to pave the way for BCI to take a sizeable stake last year, Banca Ambrosiano Veneto is set to be sold down to a shareholding structure which gives Crédit Agricole, its new French shareholder, 10-12 per cent of its equity but little chance of more.

But, even were the field wide open, Italy's banks are demanding more than just cash from those seeking to take stakes. For the biggest banks are increasingly stressing the need for reciprocity as the price for selling a share to a European counterpart.

Such concern reflects a belated recognition that Italian banks have been pre-occupied with their domestic market for too long. Lack of capital and domestic political infighting have been obstacles, but, apart from a few niche products like Ecu bonds, Italian institutions have hardly matched their big German, French or UK rivals

as driving forces in Europe's key financial markets.

There are some signs of change. With its small stakes in foreign institutions, Istituto Bancario San Paolo di Torino, the second largest bank in Italy, has already stolen some of the limelight from BCI, traditionally the most international and sophisticated of Italy's banks.

Quite what San Paolo's 12.4 per cent interest in Hambros, its 5 per cent in Salomon Brothers and its 1.1 per cent holding in Indesuez really amount to remains moot, but the bank makes much of the doors that have already been opened as a result. Even BCI itself has recently followed suit with a small share swap with Paribas.

Despite their lavish publicity and lip-service to the cause of internationalisation, no other Italian banks have yet gone so far in breaking through their national boundaries. While few of the country's financial institutions will suffer in the short term from remaining inactive, even a house as venerable as Monte dei Paschi di Siena, the oldest bank in the world, will need to pull the stops out if it is not to end up as little more than a rich, but distinctly limited, local savings bank serving its wealthy hinterland.

Haig Simonian

Harsh light cast on the equity cowboys

FOR INVESTORS used to the US, UK or even the West German stockmarkets, the recent struggle for control of Enimont, the joint-venture chemicals concern linking public and private sector interests, has been an object lesson in all that is wrong with market practice in Italy.

Investors who bought some of the 20 per cent of Enimont's

REGULATION

shares, issued in last summer's international placing, have become idle spectators as Eni, the state-owned energy group, and Montedison, the quoted chemicals company controlled by Mr Eraldo Gardini, have pulled a series of rabbits out of their respective hats in the battle for control of the group.

So far, the list of surprises has included sudden proposals for huge capital increases and apparent concert parties of institutional investors buying into the free float. And all of these events have taken place against continuing rumours of manipulation of the share price and periodic disinformation.

The Enimont affair has certainly thrown a harsh light on the cowboy side of the Italian equity market. Moreover, the fact that the initial public offering involved so many foreign investors has done little to boost the already tarnished standing of the Milan bourse abroad.

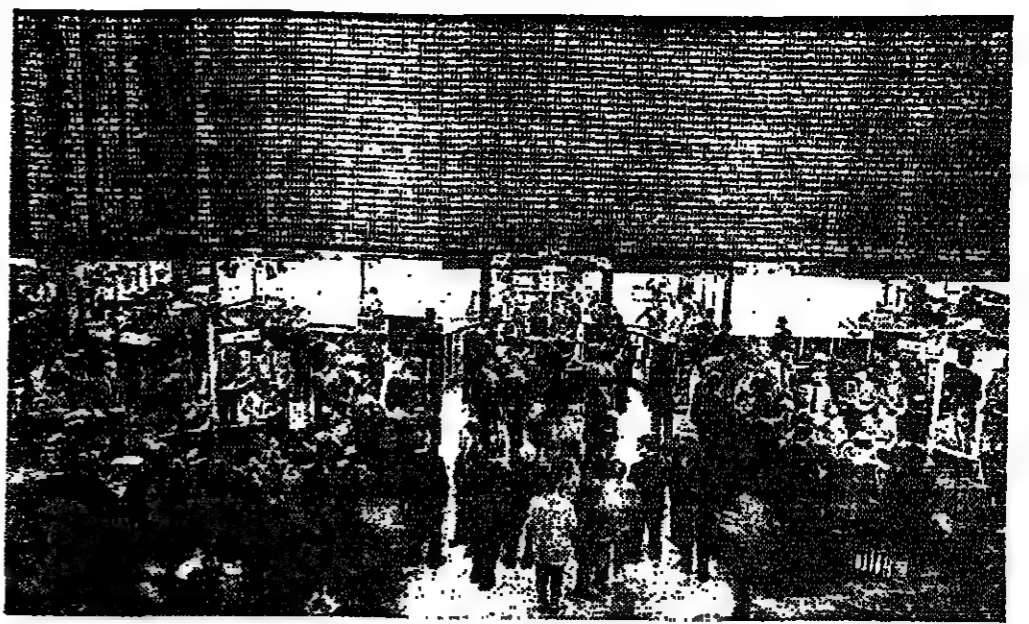
Those hoping for change still

look to Brussels for inspiration. A package of legislation, prompted by the need to bring Italian practice into line with that in other European Community countries, is still awaiting approval into domestic law. Among the measures currently before the Italian parliament are steps to reform Italy's banking, stockmarket and monopolies laws, as well as new legislation on the role of financial intermediaries.

So far, all the proposals are victims of the current political logjam in Rome. The delay in turning the plans into reality lies partly in the complexity of some of the issues at stake, and also in the political horse-trading required within the five-party ruling coalition before any legislation which is so politically loaded can be enacted.

Much of what is pending is of immediate relevance to the stock exchange. While the rules on financial intermediaries — known as Sims in Italian — is grinding its way through the legislative process, many of the remaining proposals are becalmed.

The law on Sims will reform current rules on participation on the floor of the stock exchange, creating an Italian "mini-Bang", and paving the way for banks to play a greater direct role on the bourse. As matters stand, only about 30 per cent of business is carried out on the floor of the Milan exchange, with the remainder



Only about 30 per cent of business is carried out on the floor of the Milan stock exchange

conducted over the counter between the banks. Moreover, the proposals contain important additional clauses, including provisions opening the door to futures and options trading in Italy.

However, a date for passing the Sims law remains uncertain, pending the continuing need to settle two key issues: the division of supervisory responsibilities between the Bank of Italy and the Consob, Italy's stock exchange author-

ity; and the still unresolved row between those calling for the new rules to go into immediate effect, once the law is passed, and others seeking a two-year transition period. While the optimists hope the new rules on Sims will be approved by the end of this year, sceptics point to previous false hopes.

New rules on insider trading have been examined by the finance committee of the lower house, but have still to be

passed on the floor; monopolies legislation remains tied up in a wider debate on the concentration of power within the media; while a decisive rule on attempted takeovers, whereby any shareholder who already has 25 per cent of a quoted company will have to make a full offer if seeking at least 5 per cent more, will only be dealt with after the law on Sims.

Haig Simonian

Amato law will mean stronger capitalisation

IN THE attempt to boost the standing of Italy's biggest banks and make them more competitive internationally, no initiative stands out more than the Amato law, named after its instigator, Mr Giuliano Amato, a former treasury minister.

The proposal — which should clear parliament by the

THE BANKS

end of the year — will open the way to a series of changes designed to beef up the capitalisation of the big public-sector banks, with the potential for outside shareholdings, and prompt a more rational structure for their increasingly wide range of activities.

The first change will come about by encouraging those banks, like San Paolo di Torino, Monte dei Paschi and Cariplo, which are foundations, to change their articles of association to become joint stock companies. Associated with the change is the need to pass a related tax concession on the linked revaluation of the banks' property assets.

Meanwhile, the second main provision of the Amato law should enable all the banks to become broad-ranging holding companies, grouping financial services activities like leasing, stockbroking and fund management directly under the parent company.

The benefits in terms of capitalisation should not be underestimated — especially for Italy's weakest public-sector banks. In the case of Banco di Napoli, one of southern Italy's two largest banks, the Amato law should pave the way to L800bn of new capital, allowing it easily to exceed the L400bn-L500bn which it needs to meet the Bank of Italy's capital adequacy requirements.

Meanwhile, Banco di Sicilia, its large southern counterpart, will be allocated some L663bn, although that will only just cover the amount by which it falls short of the central bank's guidelines.

While the Amato provisions slowly make their way into law, the market is providing its own discipline to the banks through a small, but growing, number of mergers.

Only at the end of this year will the May 1988 acquisition by Cassa di Risparmio di Roma, the country's second biggest savings bank, of Banco di Santo Spirito, forming Italy's seventh largest bank, be

formally completed.

Meanwhile, the creation of Banco Ambrosiano Veneto, more simply known as Ambroveneto, is already a foregone conclusion. Forged through the amalgamation of Nuovo Banco Ambrosiano with its majority-owned subsidiary, Banca Cattolica del Veneto, the new institution is now Italy's largest private bank.

While some smaller banks have also merged, notably in the co-operative banking sector, some of the biggest have been expanding. Apart from buying into Banco Lariano and Banca Provinciale Lombarda, in the late 1970s and 1984 respectively, San Paolo di Torino last year spent \$725m on a 40 per cent stake, since expanded, in Credito, the medium-term credit institution. Meanwhile, Monte dei Paschi di Siena has also been strengthening its position through regional acquisitions.

Talk of the Turin and Siena banks' merging, to create an Italian "superbank" to rival top European counterparts like Deutsche Bank or Banque Nationale de Paris, is now dis-

Estimated capital ratios: end 1989

(8 per cent minimum equity/risk assets)

BCI	8.5
BNL	8.5
Agricoltura	8.8
Roma	8.0
Credito Italiano	10.0
Ambroveneto	12.0
Lariano	14.0
Credito Commerciale	12.0
San Paolo di Torino	8.0
Popolare di Milano	8.0

*Including general provision
Source: Morgan Stanley Research

missed all round. "If we are obliged to merge with anybody, it will be with one of the two big southern banks," says one senior official at the Siennese bank glumly.

Meanwhile, executives at San Paolo reject any hint of merger at all, and talk instead of developing their bank into one of the top names in Europe. "We look forward to the day when our name will be mentioned in the same breath as Deutsche Bank," says one. "But we realise it will take a few years yet," he adds.

Haig Simonian

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Industrial Challenges

The two sides of industry have launched a joint appeal to the Government, to shift some of the burden of industry's health and welfare payments to general taxation. ■ The two giant state holding companies are engulfed by the privatisation debate; and ■ The results of the smallest have increased talk of dismemberment. ■ Italy's research spending is behind that of other industrialised countries.

THINGS HAVE gone so well in the past six years that Italian private industry, as P.G. Wodehouse might have said, definitely wears its hat on the side of its head these days.

But frequently not, it should be added, in the presence of Italy's three trade union confederations. In this company, brows furrow and serious-faced men talk sternly about the rising cost of labour and threats to the nation's competitiveness.

The warnings reached a crescendo at the end of last year, coinciding with the approach of national negotiations for the renewal of pay deals covering key sectors such as engineering, chemicals, clothing and food industries.

The first fruit of more than six months of persuasion and cajoling came in January when the confederations — the Cgil, the Cisl and the Uil — put their signatures on a compact which committed them to a joint effort with the employers to reduce the national rate of inflation and to seek to strengthen industrial competitiveness and productivity.

Confindustria has denied that it really wanted the unions to commit themselves to a pay ceiling for the coming year round, and professes itself well satisfied with the outcome.

"This will be a very important help, because employers and unions have agreed on the parameters within which the sectoral negotiations will take place," said Mr Carlo Patrucco, the vice president of Confindustria responsible for industrial relations. In addition, the union leaders will give "a stimulus" to the sectoral negotiations, to ensure that the outcome is in line with the inflation and competitiveness objectives.

For the first time, the two sides of industry launched a joint appeal to the Government to shift some of the burden of industry's health and welfare payments to general taxation. Employers' social payments were, at the beginning of the last decade, substantially subsidised by the Government, but this aid has fallen so that the employers' share has risen from 35.3 to 42.5 per cent of the gross wage. The Government has agreed to produce reform proposals by the end of May. Mr Patrucco envisages "very difficult" negotiations ahead in the various industrial sectors, but no great social strife, because "the unions are more mature and the employers more conscious of costs." Italian industry, he says, cannot afford any further loss of competitiveness after a 10.5 per cent rise in labour costs last year.

Yet other people, it might be suggested, should have been healthier after average annual profit increases of 38 per cent, including financial transactions, between 1985 and 1988, according to a Mediobanca survey.

If anything, manufacturers' shares of world markets rose last year when, in volume terms, export growth narrowly outstripped the rise in imports outside, despite rising labour costs and an appreciation of the lira against the currencies of Italy's main trading partners by about 3 points.

Private manufacturing industry's vulnerability is, in fact, being well protected by rising productivity — an overall 3 per cent in 1989 after 4.2 per cent in 1988. Nevertheless, Mr Patrucco insists competitive damage is being suffered and it is beginning to show up on the trade account. "Imports have been rising, and not just in the traditional deficit sectors such as energy, chemicals and food. We are buying more engineering components from abroad, which shows that in some phases of production, Italy is not so competitive." But he acknowledges that Italian exporters have shown remarkable resilience, given a domestic inflation rate slightly above the EC average

and, paradoxically, a strengthening currency.

"Three factors have been important," he says, "continuing investment in new machinery, continuing movement towards higher value added products and flexibility and entrepreneurial strength."

He and his fellow employers obviously feel that these remain somewhat fragile assets to throw into a balance which could easily be tilted in a negative direction by the various diseconomies in the Italian system — from inadequate infrastructure, public services and utilities, to a scarcely competitive banking sector. Throw in the relatively high cost of money, as a result of the public deficit, and there are plenty of industrialists who fear that the way forward may be all uphill.

But they would, as likely as not, be owners or managers of small and medium-sized businesses. Italy still lacks a coherent approach to the financing and regulation of small business, and a proposal from the present government is still locked up in the bureaucracy somewhere.

Mr Patrucco, like other analysts of Italian industry, is worried about its lack of dimension and wants to see both a better regulated stock market and a privatisation programme used to stimulate growth among small and medium-sized companies.

John Wyles

ITALY 6

A new united front

THE WOLVES have been gathering round Efim (Ente Partecipazioni e Finanziamento Industria Manifatturiera), the smallest of Italy's three state holding corporations, for several years. Dismemberment appears to many in Italy's political and industrial packs an appetising response to questions posed about Efim's results and the industrial logic of its existence.

Established in 1962, it controls operating companies in six main areas: aircraft and helicopters, defence systems, collective transport systems, aluminium, glass, and plant engineering. Best known among Efim's products are Agusta's helicopters, Oto Melara's guns and missiles, Breda's railway rolling stock and SIV's glass for cars and construction.

Rolando Valiani, Efim's chairman, notes that an historic function of Italy's state holdings, Iri and Eni, as well as his own corporation, was to salvage private-sector companies that had failed or were in serious difficulty.

"The holding corporations

started as a means of avoiding the loss of the technological and human capital of private sector companies in troubled sectors," he says. Efim has fulfilled this role.

Mr Valiani describes Efim as another Iri. Indeed, one of its principal sectors, railway rolling stock, had previously belonged to Iri. However, Efim's 38,000 employees and consolidated turnover of about 1,600bn mean that it is a small

Efim 1988 highlights (Lbn)		
Sector	Turnover	Net result
Aeronautical	1320.0	49.3
Collective transport systems	410.0	38.5
Defence systems	887.0	51.1
Aluminium	1062.2	8.1
Glass	1020.2	25.2
Plant engineering	281.2	(39.6)
Other companies	177.8	(6.4)
Inter-group sales/group costs	1258.1	(113.3)
Efim group consolidated	4805.3	(25.3)

"I am neither in favour nor against privatisation," he says non-committally.

Efim has, however, disposed of its Sopal food business over recent years. Moreover, the group's most important sub-holding, Finanziaria Ernesto Breda, has a market quotation, and a stake in the SIV glass company is owned by a private sector group. Efim is evaluating the possibility of quoting both SIV and its railway engineering subsidiary.

Private sector quotation does not mean privatisation. This and relations with the private sector are matters on which Mr Valiani is tetchy. "First, the private sector wants to sell companies which are doing badly to the state, and then to buy back those that are doing well."

Privatisation and any decision regarding Efim's continuation are matters outside Mr Valiani's authority. "Whether there should be one, two, three or five state holding corporations is a decision that only concerns government and parliament," he says.

The proposal that Efim should be dismantled is not new. If national aeronautical and railway industrial groupings are created (the much discussed post), Efim would be deprived of the main parts of its reason for existence that is already in question.

However, with its top appointments forming part of a deeply-rooted political spoils system, shutting down this state holding corporation would encounter entrenched opposition.

David Lane

Losses blamed on lack of capital

relation, compared with Italy's first state holding. Unlike Iri, which has several important service and financial-sector subsidiaries, Efim concentrates on manufacturing.

Although Efim has returned a steady stream of losses, its results have improved. From a net consolidated deficit of 1,800bn in 1988, the corporation's accounts showed losses of 1,000bn in 1987 and 1,260bn in 1988. Mr Valiani expects that last year's accounts will record further improvement.

Efim's chairman blames the losses on under-capitalisation and heavy indebtedness. He says that the holding corporation has a surplus at operating level that is eroded by financial charges. The figures for 1988 show a balance-sheet position that would be considered precarious for most businesses. Net indebtedness amounted to

1,470bn at year-end, almost as much as turnover during the year.

As long as Efim is in debt to the banks, one half of indebtedness being short-term, the corporation will have problems in closing its accounts with a satisfactory bottom line. Reducing debt appears fundamental.

"This is the state's problem, not ours," affirms Mr Valiani. An important factor separating Efim from the business world is its social function. "The profit objective is always present, but there are other aims," says the chairman. He notes that the holding corporation cannot close companies and dismiss staff. As a public sector body, maintenance of employment is an objective.

What does the future offer Efim? With a fierce political debate raging, Mr Valiani is sensitive about privatisation.

APPOINTMENTS NOT TO BE MISSED



5th ABITARE IL TEMPO 4-8 MAY
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15th HERBORA 18-21 MAY
INT'L EXHIBITION OF HERBS & NATURAL HEALTH PRODUCTS

4th IDROTTERME 18-21 MAY
HOT SPRINGS AND THERMAL WATERS EXHIBITION

10th EUROFORESTALEGNO 18-21 MAY
EXHIBITION OF FORESTRY ACTIVITIES AND SYSTEMS FOR TIMBER USE

2nd EUROALIMENTA 15-19 SEPTEMBER
INT'L EXHIBITION OF AGRO-INDUSTRIAL FOOD & BEVERAGE

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52nd FIERACAVALLI 8-11 NOVEMBER
INT'L HORSE FAIR & EXHIBITION OF EQUESTRIAN EQUIPMENT

7th PROSCUOLA-LAVORO 29 NOV - 1 DEC
STUDY DAYS ON TEACHING AND VOCATIONAL TRAINING

93rd FIERAGRICOLA 10-17 MARCH '91
INT'L AGRICULTURAL SHOW

25th VINITALY 5-10 APRIL '91
INT'L WINE EXHIBITION

4th DISTILLA 5-10 APRIL '91
EXHIBITION OF LIQUEURS & SPIRITS

Two safe pairs of hands

THERE IS little coincidence, and even less irony, in the fact that the new chairmen of Italy's two giant state holding companies, Iri and Eni, should find themselves at the centre of quite furious debates over privatisation issues at the very start of their terms of office.

Italian politicians are now so defensive on this question that Mr Franco Nobili would not

have been appointed to Iri, nor Mr Gabriele Cagliari to Eni, unless they held "safe" opinions on the subject.

What with Mr Guido Carli, the Treasury Minister, telling his own government that privatisation could provide the urgently needed contribution to cutting the public debt, the EC promising ever tougher controls over government financing of public companies and the captains of Italian private industry campaigning for the virtues of privatisation, it is understandable that the Italian political class should be feeling somewhat besieged.

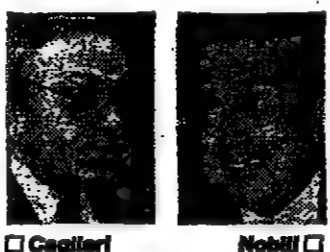
Nevertheless, the majority view in the Italian parliament is clearly that the state should, at the very least, hang on to 51 per cent of the strategic sectors which it now owns. In practice, it will not be easy for Messrs Cagliari and Nobili to dispose even of non-strategic sectors, since the politicians fear any diminution in their own powers of patronage and control.

Within these constraints, both chairmen have made it clear that they want to float minority stakes in many more of their companies on the Italian stock exchange. By appearing to be more than resolutely opposed to full privatisation at his first public press conference, poor Mr Nobili ran into such a storm from the press (largely in the hands of the captains of private industry) that this qualification in his position went somewhat unnoticed. In fact, he said that in a

period of three years he hopes that the proportion of Iri companies with stock exchange quotations would rise from two thirds to "three thirds".

Although Mr Nobili ran Cogefar, a large construction company acquired last year by the Fiat Group, before his appointment to Iri, he seems to think the actual identity of a company's shareholders to be rather irrelevant. One imagines that each day of additional experience may be forcing a correction of view, given the political obstacles to some of the objectives that he has set for Iri.

Like his predecessor, Romano Prodi, Mr Nobili finds Iri lacking in companies of a



□ Cagliari

sufficient dimension to face the domestic and international challenges of the European Community's internal market. Efforts begun by Mr Prodi to amalgamate companies in telecommunications and railways are, however, being frustrated by politically-imposed delays.

Mr Nobili's hopes of shrinking the number of identical operating subsidiaries in some areas like construction, run by Iri's holding company Iralstat, will similarly run into politically inspired opposition, because of the consequent reduction in politically inspired appointments.

Although it has some odd apples in its fruit basket — one thinks of tourism and textile machinery — Eni has nothing like Iri's mixed bunch of activities, which range from biscuits to banks. Several of its subsidiaries are already quoted com-

panies, and these could well be joined by Agip, the petrol company, this year and possibly Snamprogetti, the plant engineering company next year.

Since he took over last December, Mr Cagliari has been almost totally immersed in the battle with Mr Raul Gardini's Montedison for control of Enimont, the joint chemicals venture Eni and Montedison set up at the beginning of 1989 on a 40-40 basis, with the remaining 20 per cent floated on the stock exchange. The outcome of this struggle is as uncertain, as its likely impact on political and popular attitudes, but Mr Gardini's initial rough-house tactics will have done little to enhance the privatisation cause.

Mr Cagliari, who comes from a chemicals industry background, is convinced that chemicals remain a strategic sector which Eni must not abandon. More generally, his direction at Eni is not likely to differ greatly from the lines laid down by his predecessor, Mr Franco Reviglio.

The group will continue to invest heavily in searching for and acquiring fresh oil and gas reserves, which currently amount to nearly 19 years' production. Mr Cagliari is less interested in diversification than was Mr Reviglio, but he is not averse to new activities which derive from existing businesses and know-how.

Here, he talks of new environmentally friendly products such as "green" petrol and moving into sectors such as materials recycling, water supply and refuse disposal.

Both he and Mr Nobili give the impression of being safe, rather than innovative hands. They are defensive appointments, for a decade which may be less congenial for the European public-sector company than any since the European Community was launched more than 30 years ago.

John Wyles

Behind the rest

FIGURES PUBLISHED in December by the industrialists' confederation Confindustria, lend support to the concern that Italy lags in research spending.

In 1987, the country spent 1.5 per cent of GDP on scientific research. While this continued the upward trend from 1.0 per cent in the two years 1981-1982, 1.1 per cent in 1983-1984 and 1.4

per cent in 1985-1986, it was significantly lower than in other industrialised countries.

Confindustria's figures show that during the 1980s the US, Japan, West Germany, France and the UK all maintained spending on research above 2 per cent of their GDPs. In 1987, the figure in both the US and Japan was 2.6 per cent.

That Italian manufacturing has performed well, notwithstanding the bleak picture that can be drawn from these statistics, is explained partly by the country's industrial structure. Scientific research excludes large elements of activity aimed at technological innovation in companies.

Product and process improvements are generally not considered as research, and are excluded from figures for research expenditure. Innovation of this type is particularly significant in engineering, textiles and clothing — industries that are in the forefront of Italian manufacturing achievement.

The importance of Italy's many small and medium-sized manufacturing firms is another factor to be taken into account. Such firms tend to be excluded when data is collected on industrial research. Their research efforts are, however, thought to be low. Confindustria notes that one of the main constraints to growth of small and medium-sized firms is their difficulty in allocating resources to areas beyond their immediate needs, and hence to

research. "The impact of this on economic growth over a long period could be important," it says.

If growth is at stake, the state has an interest. So what public assistance does Italian industry receive in its efforts in technological innovation? Confindustria considers that it is insufficient in several respects. The confederation identifies a weak link between university research and industry. Universities are much more distant from the world of business than in other industrialised countries, and play only a modest role in innovation.

Another problem concerns inefficiency in Italy's public administration. Delays in disbursing research funds to industry create difficulties. This is particularly true for small and medium-sized companies firms for whom "financial constraints are often tight and punctuality and certainty of payment become an essential factor in spending." The state's role can be crucial.

Recently addressing the question of factory automation, Olivetti executive Franco De Benedetti emphasised that this type of innovation needed public support. "Above all in the use of public-sector demand as a flywheel for the definition of new applications for subsequent diffusion to other firms."

But, if Confindustria's analysis is accurate, industry is generally satisfied with the graduates. It receives from universities.

With the exception of biology, geology, agrarian sciences and medicine, employers rate the preparation of the newly graduated research staff highly. That the most appreciated are electronic and mechanical engineers would seem to augur well for a flow of innovative ideas in Italian manufacturing industry.

David Lane

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Social challenges

A leading sociologist fears that the next decade may see the country dominated by super-active "doers", while the rest of an ageing and inward-looking population sits on the sidelines.

It may take 10 years to defeat Adriatic pollution.

The state TV network is likely to lose its news monopoly.

Illegal immigrants who declare themselves by June 30 will get health, housing, and social security rights.

IF ITALY does not find new collective values to bind it together, the next decade is likely to see development peter out and internal divisions increase, says Giuseppe De Rita, the country's leading sociologist.

Mr De Rita, president of both the National Committee for Economy and Labour (CNEL) and its subsidiary, the Centre for the Study of Social Investments (Censis), is concerned that Italy will be dominated by a new oligarchy of super-active "doers", while the rest of an ageing and inward-looking population tends to sit on the sidelines.

This can only be countered by new collective values, he says, singling out the Catholic

church and Italian industry as the two groups most likely to supply them.

While oligarchies are by no means new to Italy, says Mr De Rita, they have never brought development. "We have only had real development when we've worked at it all together. During the last 45 years, Italy did not rediscover democracy alone. These years have also been characterised by a general proliferation of vitality, of all regions, trades and social groups."

Mr De Rita is worried by the formation of a "strong concentration of persons who work, assume responsibilities, and have initiative, and [the possibility] that this concentration tends to create an attitude of disengagement among the rest of the population."

The resulting schism, he says, is between those who act and those who delegate responsibility to the former, is disturbing, he says. For Italian reconstruction, and the consequent development and wealth, was the fruit of a highly participative society, "a

developmental process in which the small artisan, the small transporter, the small manufacturer, all had a role."

Today, instead, most people continue with their daily life, leaving competition, development, the onset of the new Europe, to big industry, big finance, big politics. "We are returning to the narrow-based culture of 50 years ago." The result is that the country is divided into two factions: a minority, which continues to interest itself in the outside world; and the majority, which "is looking inward, a group which is satisfied with its current identity, eager to defend what it has and uninterested in new conquests."

Mr De Rita regards the current schism with "inwardness" or domestic problems as disturbing for a country which, until recently, depended on the outside world for modernisation and growth. He singles out the obsession with crime, the fear of delinquency, as particularly disturbing, almost as if the absence of an "external" war,

like fear of communism, had given way to an internal war or cancer.

The atmosphere has changed radically. "In 1947, we returned to free trade. In 1958, we joined Europe. We looked outside ourselves for a new identity. Today, instead, we focus on things like traffic, urban life, crime, racism, immigrants, drugs, the mafia. Among our population, there are thousands of entrepreneurs who travel the world. But our collective consciousness is based on a sort of internal introspection: we look within instead of without."

How has this disparity, between "doers" and "voyeurs" come about? Mr De Rita attributes responsibility to a loss of the country's current unparalleled wealth and to the ageing of the population — both in spiritual and demographic terms.

On the one hand, he says, Italy has been experiencing a loss of "aggressive vitality". In Mr De Rita's estimation, the country has always been "an adolescent country,

rough-edged but strong". The 1990s appears likely to turn Italians into a "more sophisticated and elegant people", but one that is also older, more closed, more tired, more depressed.

On the other hand, Italy also has been living "a season of great subjectivity", in which personal identity and personal satisfaction have taken prevalence over all else. Thus, Italian youth is more concerned with daily life — discotheques, school, clothes and soccer — than with the outside world.

One implication of Mr De Rita's analysis is that of decreasing political participation in the future. In contrast — and this is one bright light in a darkened scenario — in the last four to five years there has been a marked return to volunteerism. This means that more Italians are beginning to feel the need to open themselves to others, to establish real human relationships.

Sari Gilbert

ITALY 7

'The threat from oligarchy'

New body to fight algae

THE GOVERNMENT appears to have taken the initiative in the debate on Italy's environmental problems, issuing a list of laws and profiting from divisions among the Greens.

There is considerable respect among environmentalists for Mr Giorgio Ruffolo, the Socialist minister for the environment. He cannot afford to relax, however, because ecolog-

ENVIRONMENT

ical disasters pop up as unexpectedly as the algae which first appeared off the Adriatic coast three years ago, covering the water with slime and scaring the tourist trade.

The algae are almost certain to reappear this summer, stirred by sunlight and nitrogen and phosphorus chemicals deposited by rivers such as the Po. A law establishing an Adriatic authority, which must adopt a clean-up plan, was approved last month, but Mr Ruffolo has said the problem may take 10 years to resolve.

He has a staff of 200 at the ministry, which was only established in 1986 and oper-

ates, he says, from "the most polluted square in Rome" (Piazza Venezia). He has put together a national strategy which, as its main plank, has two laws on the disposal of urban and industrial waste and a law on the Defence of the Soil. This has established authorities for the protection of six large river basins, including the Po, and 12 regional ones. He has also established a 1989-91 programme which gives financial resources of L7,500bn, or 2 per cent of GDP.

The programme is impressive, but Italians are sceptical about its implementation, given administrative inefficiency, conflicting authorities and obstruction by local councils. According to Finmeccanica, part of the Iri state holding group, only 22 per cent of environmental funds earmarked in 1988 was spent.

Mr Ruffolo himself says that "regional and national procedures are very long and, that five or six ministers are involved in environmental decisions. This must be simplified."

He thus anticipates the most serious criticism levelled by the Greens. Mr Mario Signorino, president of Friends of the Earth, says that laws remain unapplied with a delay, for example, on the siting of waste plants.

Senator Marco Boato, a Green elected to the upper house from Trento, says: "The environment ministry has such a high level of responsibility that this risks becoming a boomerang because it does not succeed in facing up to its responsibilities."

For the ministry to be entrusted with drawing up a masterplan for the Adriatic is a matter of some pride, he says, but it "does not have the scientific nor the administrative skills". He would not be surprised if the job were farmed out to a state holding group.

Federchimica, which represents over 1,200 chemicals companies, and the employers' association Confindustria are alert to ecological problems, and combined at the end of 1988 to set up the Institute for the Environment at Milan, which conducts research into the cost of reducing pollution and its technical aspects.

The institute intends to sell consultancy services in a market approach which also guides Confindustria's efforts to make each industry responsible for its waste recycling. Glass, plastics and metal containers consortia were set up in February, along the lines of a well-established industrial oil consortium which recycles 180,000 tons of the annual output of 600,000 tons, about 70 per cent of the potentially reusable total.

Public opinion on the environment is to be tested on June 3 by referenda on curbs on hunting and pesticides, and in the May local elections. Now that the main parties have gone green to some degree, the field is not left to the Greens, who are also split between Sole Che Ride (Laughing Sun) and Verdi Arcobaleno (Green Rainbow).

Mr Francesco Rutelli, a deputy who entered parliament as a Radical Party member and is now with Arcobaleno, believes the Greens must swiftly put their house in order and start behaving like the fourth political force in Italy. Given that they took 6.5 per cent of the votes in last year's European elections, this is what they are.

John Simkins

John Simkins

Ownership will be curbed by new Bill

THE GOVERNMENT has stepped into the battle for control of the media, with a proposed anti-trust law. If passed, it will set limits on the influence of major industrial groups over the press and airwaves.

Although the need for regulatory legislation has long been recognised, it took the recent move by TV and radio-estate mogul Silvio Berlusconi, to acquire control of the Mondadori publishing group, to forge a political consensus.

Last month, the Senate passed a comprehensive mass media Bill that sets curbs on overall ownership of media

THE MEDIA

instruments, and limits the extent to which newspaper publishers can own television stations and vice versa.

At the same time, by obliging anyone owning more than one television station to schedule regular news broadcasts, it will effectively bring to an end the news monopoly hitherto enjoyed by RAI, the three-channel state television network.

The Bill, which also sets guidelines for the distribution of television and radio frequencies, advertising sales and the frequency and timing of television commercials, is expected

to come to a vote in the Chamber of Deputies after the spring municipal and regional elections. According to the author of the Bill, Mr Oscar Mammi, the Post and Telecommunications Minister, a Republican, the law is necessary "to prevent the concentration of power in too few hands".

Mr Mammi believes that capitalism has been allowed to run wild in too many sectors. "What Italy needs is a brand of capitalism that is regulated by precise norms," he said, adding that the purpose of the current law was "to make sure that no one group dominates".

In fact, the immediate effect of the law would be to curb Mr Berlusconi's further media expansion within Italy. Although his three television stations already rival RAI in prime-time audience, the takeover of Mondadori from financial-industrialist Carlo De Benedetti, would also give him effective control over two major Italian newspapers and a dozen local dailies, as well as a vast periodical and publishing empire.

The law would also prevent the Rizzoli-Corriere della Sera publishing group (controlled by Gemina, an investment vehicle whose major shareholder is Sicind, a subsidiary of the Fiat automotive company) from expanding into television.

Political parties have a long tradition of influence within RAI. But many politicians got excited when industrial concerns, citing the need to withstand future European competition, began buying up the country's newspapers.

Fiat, owner of La Stampa, of Turin, and the nationally-circulated Gazzetta dello Sport, in October 1984. Indirectly acquired control over Corriere della Sera as well. The powerful Ferruzzi company owns the Rome Messaggero and a smaller economic paper. But alarm bells really went off last spring when De Benedetti took over Mondadori, and then merged it with the important Roman press group, Espresso Editore.

If the Senate version of the law is passed by the Chamber, Berlusconi's company Fininvest

will be forced to sell its newspaper holdings. It would be allowed to hold on to three papers — the prestigious La Repubblica and the smaller Il Giornale — only if it sold one or two of its highly profitable TV stations.

In addition, Mr Berlusconi, a pioneer in television advertising, will no longer be able to sell ads to stations he doesn't own, thereby losing his effective influence over three additional channels.

Italy is the only major European country without regulatory legislation in the field of communications. A 1981 law, still on the books, sought to address the problem of industry's hold on information when it set a 20 per cent cut-off point on newspaper holdings by a single group.

The new law will bar daily newspaper ownership to anyone owning three or more television stations. A newspaper publisher whose combined papers account for more than 16 per cent of national circulation, cannot own any TV stations. He can own one station if the circulation of his papers lies between 8 and 16 per cent of the national total, two if it is under 8 per cent.

Sari Gilbert

Visa policy reviewed

ITALY HAS had to acknowledge that, of its 1.3m non-EC immigrants, about 800,000 are there illegally, perhaps over-staying their three-month tourist stay for which visas have not been required.

At the end of February, Mr Claudio Martelli, Deputy Prime Minister, rushed a law through which regulates the presence of clandestine immigrants who declare themselves by June 30, giving them health, housing and social security rights.

IMMIGRATION

It did not grasp the nettle of putting a fixed number on non-EC immigrants, or close the frontiers for a period, as the Republicans within the governing coalition wanted, but directed that the number to be admitted on two-year work visas should reflect the needs of the labour market.

It is thought there were about 70,000 non-EC immigrants in 1988. "We prefer to talk of a planned flow than of a fixed number," said Mr Franco Caruso, diplomatic counsellor to the Deputy Prime Minister. "It is a philosophical criterion. We have a tradition of democ-

racy and tolerance and open-minded thought. We should like to maintain it."

The same tradition, however, has not prevented strong controls elsewhere in the EC. "If we say we can accept 25,000, we shall be very strict. We shall give 25,000 visas and the rest will be expelled," said Mr Caruso said.

Prof Alberto Sobrero, of the Institute for Political, Economic and Social Studies (Ispes) at Rome, says the pattern of immigration has changed in the past five years, with an increase in people from the sub-Saharan countries, largely because French and UK barriers mean that they no longer use Italy as a corridor.

Prof Sobrero said: "Italy is easy to enter but difficult to live in, because there are no mechanisms for integration." He says the Martelli law must be followed immediately by specific measures, looking at Italy's capacity to give jobs, health care and homes to immigrants, province by province, with an eye also to training short-term contracts for those who wish eventually to return home. "If there is no

policy there will be enormous problems — Florence is only the start."

Tension surfaced in Florence when shopkeepers accused unlicensed African hawkers of selling false trade-name goods, and after a crime wave including drug pushing, for which north Africans were held responsible.

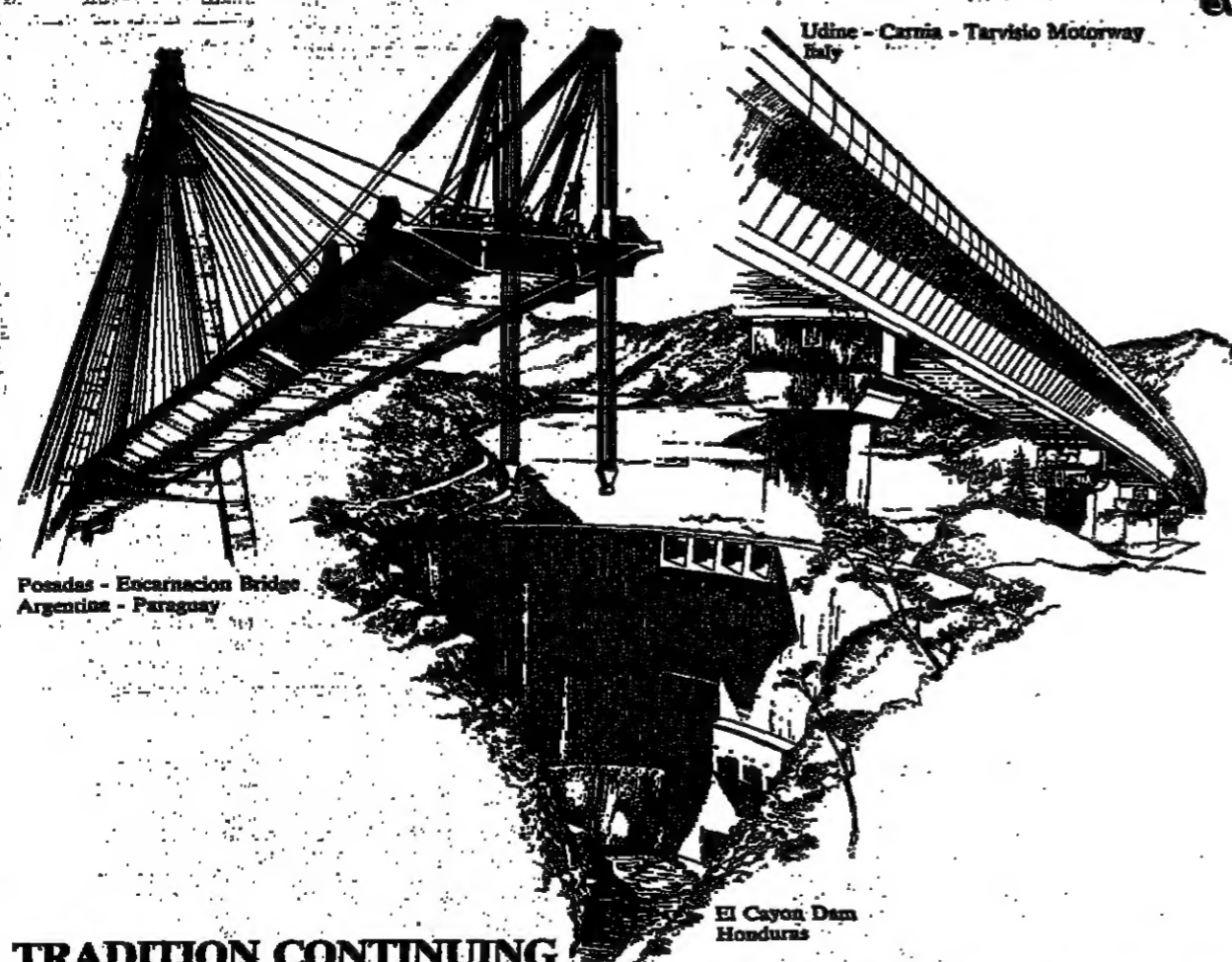
Prof Sobrero said: "The danger is that the 800,000 [clandestine immigrants] become seen as the cause of the evils. Already Italy says Africans mean drugs, prostitution, crime and lack of housing and jobs. It is not taken into account that the drug bosses are Italian and that the Africans are the labourers."

Prof Sobrero demands a political approach to immigration which reflects Italy's responsibilities as a world power within the context of the developed countries' relations with the Third World.

However, the Government, which at first gave itself until June to review its visa policy, may now move earlier towards imposing three-month entry visas.

John Simkins

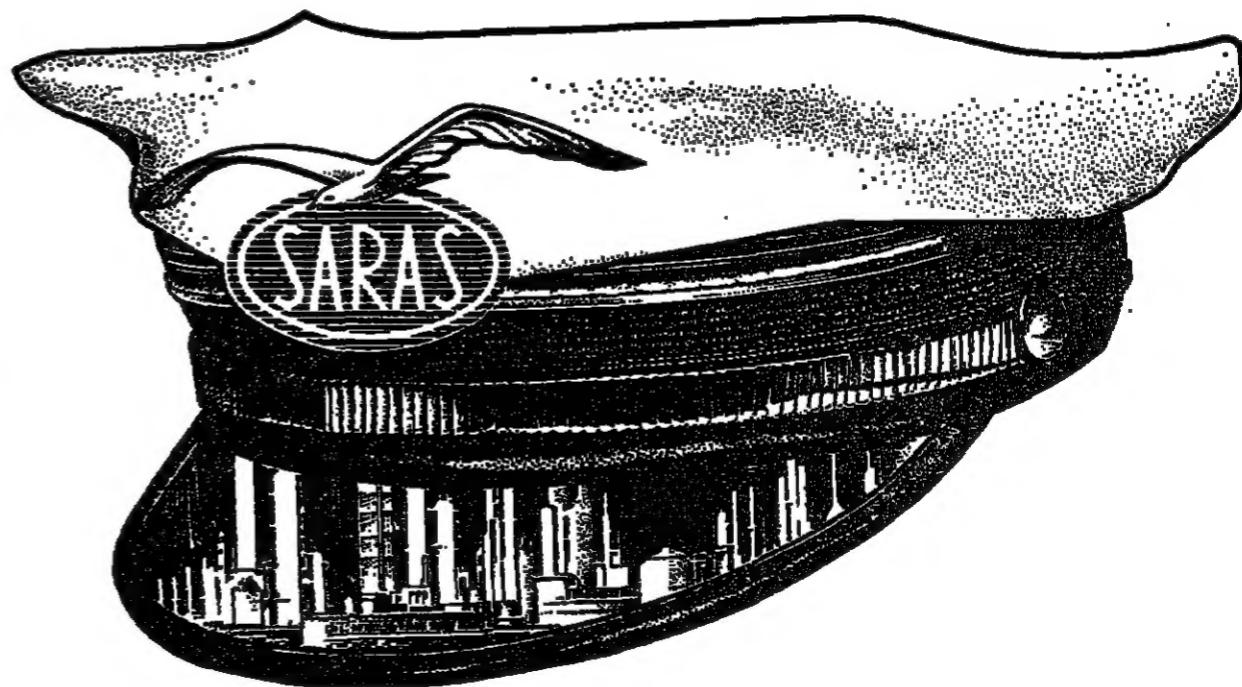
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Public services

Italy needs a telephone system worthy of a major industrial country in the last decade of the 20th century: today's fragmented and patchy approach is inadequate.

■ Half of the locomotives and two thirds of rolling stock on the country's railways are more than 20 years old.

■ The gap has grown between what universities offer and the needs of industry: the failure is most marked in engineering.

SLOW POSTS. Over-crowded and inefficient hospitals, random power-cuts, poor telephone links, unswayed streets, chaotic urban transport, problems in education and a snail-paced bureaucracy... The ills afflicting Italy's public services often seem beyond cure.

Low expectations of the public sector help explain the stolid patience of Romans packed on the city's underground, Milanese suffering the frequent inconvenience of air travel to the capital, and Italians throughout the country who are forced to endure lengthy queues to pay utilities bills and long waits to receive their pensions.

But, handicapped by poor public services, business has become impatient and is

Industry demands a rapid improvement

demanding rapid and significant improvement. As the latest shot in its campaign to obtain more from the tax line, Italy's industrialists' confederation, *Confindustria*, recently organised a convention with speakers of the highest calibre to fire some salvos.

The gap between public services in Italy and its European neighbours is a matter of concern, because it affects overall business competitiveness. "Industry was radically reshaped in the 1970s and early 1980s, the modernisation process changing the mentalities of trade unions, workers and management alike. This has not occurred in public services, and the efficiency gap between private and public sectors has widened," says Mr Luigi Abete, *Confindustria's* deputy chairman.

Mr Abete says the public sector has failed to move with the times, because a supplier-client relationship in industry "nobody appears to believe in the idea that a service should respond to the

needs of the customer. Public services are not market-oriented."

Detachment from the market starts at the top. Poorly paid and enjoying little incentive to produce results, management in Italy's public services is generally of a much lower standard than in the private sector. The notion of *il posto*, the secure public-sector job, is well rooted from blue-collar to top white-collar workers.

The issue of management is crucial. "With better management, cost savings of between 5 and 10 per cent could be achieved, operating with the same rules and without making any structural changes," claims Mr Abete, noting that cost-efficiency and cost-effectiveness are unknown measures in the public services.

Service quality fails to match the level of spending. In spite of investment to build infrastructure and high spending on salaries, output from public services is low. But getting what already exists to

work well and efficiently is difficult when staff do not have the objective of working better or quicker.

Although many Italians are sceptical, Mr Abete believes that politicians are now aware of the need for drastic curative action. "They know the illness is serious, but until it is very painful they are scared to operate."

However, summoning the courage to take the scalpel to the patient is one of the biggest challenges for politicians and senior public sector managers at the start of the 1990s. Italy's industrialists are certain that it will happen, but wonder when.

If action is taken soon to encourage a market approach and efficiency, and to reward responsibility and results in public services, Italian business will be given a competitive boost. Businessmen prefer not to imagine the alternative of procrastination and a widening gap with Italy's European partners.

David Lane

Alitalia is in better shape than railways, despite heavy losses

DEALING WITH bureaucracy is fraught with costly obstacles. And Mr Gastone Nardoni, chairman of the Italian Board of Airline Representatives (*Ibar*), paints a bleak picture of airline business in Italy.

"It is absurd that an international airport like Rome's Fiumicino does not operate a 24-hour customs service," he says. The airport's officers

Alitalia has lost business in the north of Italy, as travellers choose to fly from Swiss and German airports. "These are more efficient and can guarantee service."

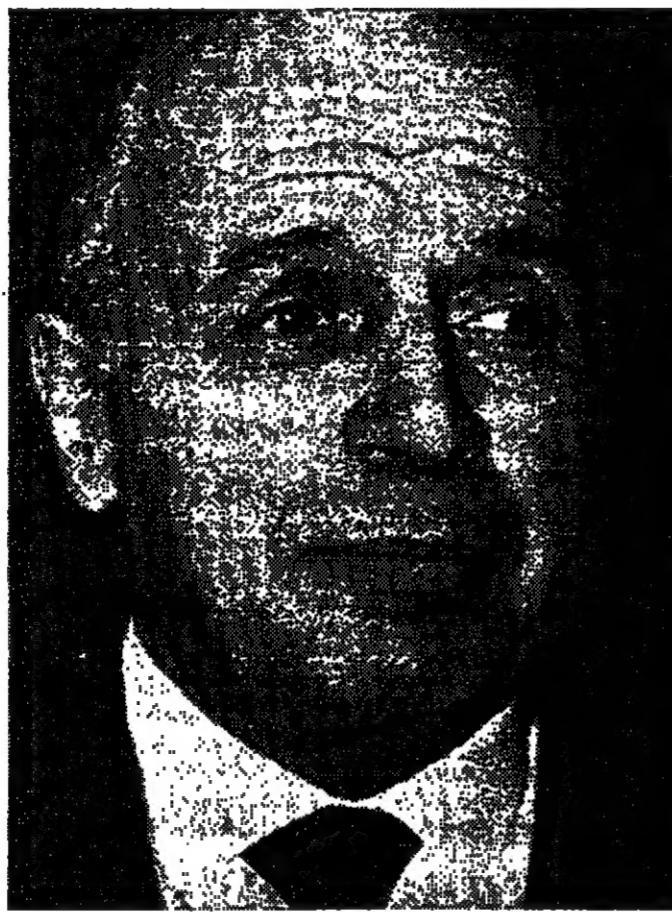
Indeed, Alitalia is as much a target for consumer dissatisfaction as airport infrastructure. That the airline needs to improve to match its competitors was recognised in last December's revised general transport plan prepared by the Ministry of Transport.

The document notes that, with EC liberalisation, Italy must establish criteria, procedures and tools to allow a valid reorganisation of air services to be undertaken. "Particular care is needed to guarantee priority in operational conditions to the national flag-carrier over other airlines," is the Ministry of Transport's defensive and protectionist line.

Alitalia's results do not help its plans for closing the gap with other European airlines through service improvement and fleet enlargement and modernisation. Last year Alitalia Group returned losses, thought to be about L220bn, after modest profits of L53bn on consolidated turnover of L4,240bn in 1988.

Nevertheless, Alitalia is in much better financial shape than Italy's state railways. Last year, running the railways cost L14,140bn, of which its L4,070bn revenues covered less than one third.

However, the problems of the railways are not only evident in the economic figures. Operational data reveal a system that is technologically backward and over-manned. The Ministry of Transport's revised general transport plan shows that only one quarter of the 19,600km network is electrified double-track, only one fifth of the network has advanced signalling, and one half of the locomotives and two thirds of rolling stock are more than 20 years old.



Mario Schimberni: a programme to turn the railways round

Nearly two thirds of passenger traffic is carried on less than one fifth of the track, and the 58.2m tonnes of goods transported in 1988 was the same as in 1977. The workforce of 210,000 is generally considered to be too large.

Such figures make restructuring a priority for Mr Mario Schimberni. The former Montedison chairman, who is now the railways' special commissioner, presented a programme last November which aims to turn the railways round by the

end of the century.

Mr Schimberni's plans forecast revenues covering 84 per cent of costs by 1998. But the programme requires investment of L54,700bn and substantial workforce reductions. It is difficult to see either being approved in full. Most likely the railway restructuring programme will gather dust on office shelves.

David Lane

ITALY 8

A unified network is the remedy

FOR THE Rome businessman trying to contact Milan, the telephone system generally provides an exasperating level of poor service. Obtaining a connection between central and northern Italy is a lottery, in which the odds are weighted against the user.

The national telephone company *Stp* claims that the overall figure for answer-service

POSTS AND TELECOMMUNICATIONS

ratio (*ASR*), the usual measure of network efficiency, is just over 50 per cent. But telecommunications consultants say the reality is worse than that. The overall *ASR* includes urban calls, and the *ASR* for these is significantly higher than for long-distance calls, so *ASRs* of about 30 per cent on trunk and international services are probably nearer the mark.

Mr Oscar Mammì, Minister of Posts and Telecommunications, admits with engaging frankness that the country's telephone system leaves much to be desired. Institutional problems are part of the trouble. "The division of responsibilities between several bodies is a major weakness," he says.

In addition to *Stp*, two other organisations are involved in telecommunications: *Italcable*, a sister company responsible for intercontinental communications; and *Azienda di Stato per i Servizi Telecomunicati* (*ASST*), a ministerial department tasked with ensuring domestic inter-city and continental trunk communications.

"We urgently need a unified network and management in order to achieve rational and better service," says Mr Mammì. Two years ago, in April 1988, he placed a Bill



Oscar Mammì: 'Division of responsibilities is a weakness'

before parliament which aimed to transfer *ASST* and its 14,000 staff from his Ministry to *Stp* — a proposal generally considered to offer an important step forward.

"I hope that discussion of the Bill will soon restart. It contains only seven articles and could be approved quickly," says Mr Mammì. "But it would be unwise to forecast when it will be enacted" he adds, acknowledging trade-union opposition and difficulties in parliamentary scheduling.

Telecommunications consultants are concerned that the change should happen soon, pointing to a worsening situation. Solving the problem of making Italy's telephone system worthy of a major industrial country in the last decade of the 20th century depends largely on unification and co-ordination. Today's fragmented and patchy approach is inadequate.

Certainly, *Stp* is spending substantial sums in seeking solutions to its problems.

Between now and 1993, the corporation expects to invest L36,000bn to improve services and meet growing demand. "Two years ago, digitalisation was low. Now Italy ranks second to France in the European table," says Mr Mammì.

But money alone cannot provide the way to better services. Consultants say that *Stp's* overall technical capability is low. The number of exchanges may have increased, from 33,500 in 1988 to 72,300 last year, catching up slightly on neighbouring countries in numerical terms, but quality remains low. In the case of packet switching, the network is poor and numbers small.

"With traffic exploding at all levels, and never having got on top of the problems, *Stp* will merely move from a lousy situation to a bad one," says a leading consultant. Nevertheless, Mr Mammì believes Italy's telephone system will soon show a sharp improvement.

The minister considers that putting telecommunications in

order is an easier task than improving the postal system. As with the telephones, Mr Mammì believes that unravelling an institutional tangle is fundamental to the task.

Draft legislation that would remove Italy's postal service from the ministry and make it an independent body has been awaiting parliamentary approval since April 1988. "There is no open opposition to the Bill, but people are scared by the radical changes proposed," says Mr Mammì. He says that the body, most likely a public authority rather than a joint stock corporation, must be given the financial target of breaking even, with sanctions on the governing board if this is not achieved.

A major problem in restructuring the postal services along the lines foreseen by Mr Mammì is the transfer of 240,000 civil servants. In their present ministerial working environment, custom and practice encourage many forms of inefficiency.

"Employment in the postal service has been a social shock-absorber for southern areas. Staff recruited from the south to work in the north then ask to be transferred home. Many, recruited as postmen, ask for transfers to office jobs. Absenteeism is high and productivity generally low," says Mr Mammì. Italy's Minister of Posts can claim progress during his three years in the job, and not only in cutting the average letter delivery time from 8.5 to 4.5 days. His two Bills have signed the way forward. And with his micro-privatisation of express delivery services in 12 cities, he has given a provocative prod to the system.

David Lane

Peaceful opposition to reforms

MR ANTONIO Ruberti, the Minister for Universities and Research since June 1989, is not in the least penitent. After three months of student occupations in most of the faculties in Italy's 59 universities, he continues to push through his reforms with little modification.

The students have reacted sufficiently to allow lectures

EDUCATION

and exams to resume, but threaten more action if a law allowing universities more autonomy is passed in May.

"I am convinced that eventually the students will be my allies, because the reforms are for them," said Mr Ruberti, a socialist and former rector of Rome's *La Sapienza* university — adding with a chuckle that the *Pantera*, or Panther, as the loose-knit student movement became known, "was my press officer". It provoked debate about his proposals, and institutions and industry have expressed approval.

The shortcomings of universities have much to do with a highly centralised system that means that decisions about spending, the degree structure and teaching staff depend largely on Rome. Moreover, all 19-year-olds who pass the *maturità* school-leaving exams have the right to enter university. This causes pressure on inadequate services, particularly in the first year.

But although 65 per cent of

Number of students per teacher principal degree courses 1988-89					
		Minimum		Maximum	
Manufacturing science	14.1	Potenza	3.0	Milan	28.5
Chemistry	19.9	Ferrara & Cagliari	8.7	Genoa	28.0
Medicine & surgery	8.5	Udine	2.5	Brescia	16.1
Engineering	18.5	Rome Tor Vergata	2.8	Milan	35.5
Architecture	41.5	Reggio Calabria	25.0	Milan	64.9
Agriculture	11.2	Salerno	2.2	Verba	75.6
Veterinary surgery	17.7	Sassari	6.0	Perugia	23.3
Economics	46.2	Urbino	27.2	Rome	97.1
Political science	32.1	Teramo	16.4	Milan	57.5
Law	70.3	Rome	20.8	Milan	140.0
Arts & philosophy	21.9	Rome Tor Vergata	5.3	Milan	35.9
Magistero*	29.3	Perugia	9.3	Naples Magistero	67.4

*Includes education, sociology, psychology and law courses

Source: C.N.I.

*Includes education, sociology, psychology and languages

Source: Censis

19-year-olds go to university, according to the statistics institute *Censis*, so many drop out that only one in three takes a degree. So while Italy has 16 per cent of EC students, it has only 3 per cent of graduates.

The minister says the gap has grown between what universities offer and the needs of industry. The failure is most marked in engineering, a five-year course. Italy is said to be short of 6,000 engineers, and graduates may be over-qualified for their first posts as there is no diploma at the *HND* level.

Mr Ruberti's proposals, some of which fall outside the remit of the law currently before parliament, have four principal strands:

■ Separation of the government role, which will be limited to directing university pol-

icy, particularly in research, from management. This will be handed over to universities which would become responsible for budgets.

■ Shift from a model based on a degree to a three-year diploma, followed by a course up to degree level and further specialisation. ■ Elimination of imbalances between big and small universities and those in the north and south. Half the students are in just seven universities.

■ Another look at the *diritto di studio*, or right to study, which regards the state's financial responsibilities. Resources should be concentrated on helping students and services most in need.

The student opposition to Mr Ruberti, conducted in a democratic and peaceful style, in contrast to the upheavals of 1968, was on two levels. First, the debate focused attention on over-crowding and inadequate lodgings, canteens and libraries. These long-standing ills have been suffered for the past decade.

Mr P. Amico, a final-year student of sociology at Rome's *La Sapienza* (the world's largest university, with 100,000 students but built for 30,000), said: "It's as if we were in the Third World here."

Mr Ruberti does not dispute the justice of these complaints, but says student objections to a bigger role for industry are well-founded and have become caught up in the ideological controversy regarding public and private sector roles.

Greater autonomy is intended to facilitate links

with the productive sector, which are much weaker than in northern Europe, with only 4 or 5 per cent of university spending provided by the private sector through such as research contracts.

But the students took fright at a provision allowing outside representatives up to one-fifth of seats on administrative boards, and claimed too that industry would neglect southern universities. The protests began in Palermo and in the arts.

Mr Ruberti maintains that the continuing dominant role of state spending will protect the weak. He also says he has given greater role in administration to representatives of their representatives, and set up an all-student senate to express views on teaching.

Even if the law now going through parliament is not passed by May 28, universities will be able to opt for autonomy by virtue of a decree issued by the minister in May 1989, of the university and research portfolios.

But autonomy on its own will not improve services overnight nor address problems such as part-time teaching. Further laws will have to tackle controversial issues such as control of staff and degree structure.

The British Council in Rome said: "There are enormous problems bound up with what the university philosophy is, and the reform seems to be tinkering round the system rather than tackling the root causes."

John Simkins

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■ Arbitrage in fixed-income securities

■ Financial and fiscal advisory services

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ITALY 9

The regions

For all its achievements in enterprise and in wealth creation, Italy remains a divided country, not only in its distribution of wealth, but also in its attitudes to the state, social responsibilities and public ethics.



ITALY'S REGIONAL diversity has more often than not been a source of national strength rather than weakness. It is still a matter of debate whether, 120 years on, the nation has really created Italians — the initial task set for it by Italy's first prime minister, Camillo di Cavour. But even if Lombards, Piemontese, Sicilians and others have withstood the melting pot, their interactions have created a dynamic and creative society.

Yet, for all its achievements in enterprise and wealth-creation, Italy remains a seriously divided country, not only in its distribution of wealth, but also in its attitudes to the state, social responsibilities and public ethics.

The farther south you move, the more public expectations of, and confidence in, the state diminish; the greater the incidence of contempt for certain standards of behaviour; the more widespread the phenomenon of political and business corruption — until you arrive in the regions of Calabria and Sicily, where the barely falls short of the Hobbesian state of war of man against man.

Most Italians would find this description excessive, because many social decencies are, indeed, preserved by the strength of loyalties to the family, the village and the Roman Catholic church. But there are very large areas of both Calabria and Sicily where social and economic life and individual behaviour is polluted by organised crime, and where rivalry between mafia bands delivers

The south remains a costly millstone

a murder rate in a town like Reggio Calabria of close to 200 corpses a year.

All experts these days acknowledge that organised crime may be the fundamental obstacle to the raising of economic standards, not just in Calabria and Sicily, but also in Naples and elsewhere in Campania where the Camorra, the local mafia, grows in power. The phenomenon is even emerging as a threat in parts of Puglia, which has made substantial progress in the last 20 years in pulling itself out of the rut of the Mezzogiorno's economic and social backwardness.

Switzer, the association for promoting industrial development in the Mezzogiorno, gave pride of place in its annual report last year to its conclusion that in Campania, Calabria and Sicily, organised crime was now fully able to "condition" political decisions on contracts, supplies, concessions, recruitment and the provision of public services.

Yet the problem rarely receives the treatment it deserves, considering the words, and lira, devoted every year to long and learned discussions on the Mezzogiorno problem.

The Italian state has pumped more than L100,000bn into the region over the last 40 years. In return for its money, it has achieved a per capita income that is 50 per cent of the national average (rather less than it was in the 1970s) — to say nothing of a 31 per cent rate of unemployment (more than three times that of the north), of which more than 40 per cent is under the age of 25.

It can still be held that, without this vast expenditure on infrastructure and industrial plant, albeit rather too much of a "cathedral in the desert" variety, the region would have fallen even further behind. But what 40 years of "special interventions" have failed to achieve is a solid base of locally generated activity in industry and services. Well over half the 417,000 manufacturing jobs created between 1951 and 1988 in the Mezzogiorno were in non-southern companies, 48 per cent of whom were private and 41 per cent public.

Without Fiat, Olivetti, Iri and Eni, to mention but a few of the northern "colonialists", the south would be an industrial wasteland.

With both public and private industry preoccupied with restructuring in the first half of the 1980s, the rate of investment in infrastructure and job creation has diminished markedly over the past decade. As a result, income supports of one kind or another have been used to keep the southern economy afloat, but at a price that is not purely financial, since political clientelism — the purchase of support in return for favours — is now rampant. It is not difficult to identify the main ingredients of a more useful policy for the Mezzogiorno: it merely requires a superhuman effort to implement one.

Recent separate analyses — by Mr Mario Sarcinelli, director general of the Italian Treasury, and Professor Enrico Wollieb, a Sicilian expert on regional policies — suggest a mix of administrative and political reform, and supply-side solutions.

Prof Wollieb would seek to break both the chronic inefficiencies of local government in the south and the mafia's penetration of politics by introducing new mechanisms which bring transparency and clear responsibility to the decision-making process.

Mr Sarcinelli would devote to southern institutions no more responsibility for project development and investment than was absolutely necessary. He would continue to encourage large-scale public and private infrastructural investments; but he would tackle those factors, from wage rigidities to immobile people and capital, which have been lowering productivity in the Mezzogiorno, discouraging emigration to the centre and north and deterring inward investment.

Both experts are alarmed at the damage that the opening of the European Community's internal market could wreak on the south, both through reducing the northern Italian economy's capacity to support this millstone and limiting the state's capacity to continue financing non-productive lives.

John Wyles

JUST 30 miles from Milan, but a world away from its bustle and noise, lies Bergamo. In hilly countryside abutting the southern Alps, the province is a tourists' paradise. At the heart of the province (population 221,000) is Bergamo itself, a prosperous city of 118,000 inhabitants. With its trees and wide promenades, colonnaded Piazza Matteotti, which leads to the Teatro Donizetti, named after one of the

Italy Simonian sees the prosperity of BERGAMO

city's most famous sons, it has more than a whiff of elegant spa like Bath and Wiesbaden.

But it is the upper town that attracts most outsiders. Lying strategically between the Milanese and Venetian spheres of influence, Bergamo was ruled by both powers before coming under the control of Napoleon, and then the Austrians.

The Venetians left the biggest mark, with powerful ramparts encircling the upper city and creating a paradise of alleys, handsome churches and imposing public buildings, capped by the city's distinctive Piazza Vecchia.

But while scores of Swiss and Germans stream across the border to take in the

sights, it is more for industry than tourism that the hard-working and entrepreneurial Bergamasci are known to their fellow Italians. For Bergamo is one of the richest of the 11 provinces of Lombardy, which itself accounts for about one third of Italy's GNP.

Unlike neighbouring Brescia, renowned for its shoe industry, Bergamo has a diverse manufacturing base. This is one of its strengths, and has protected it from economic crises in the past, reckons Mr Giulio Cristofolini, an official at the provincial industrialists' union.

Most of these businesses are small, with less than 300 employees, making Bergamo typical of much of wealthy northern Italy. Even Italcementi, the biggest employer in the province, only has 3,573 on the payroll. A range of family firms produce a variety of finished and semi-finished goods.

Some of Bergamo's local companies are leaders in their field. Vamstex and Somet both have an international reputation for specialised textile machinery, while even Bergamo's many button-makers are internationally known. Their range and flair, as well

as their ability to adapt to new fashion trends, has enabled them to survive against cheaper third-world rivals.

An emphasis on the outside world is another strength, according to Mr Costantino Corbani, of the Milan-based Unioncamere Lombardia, which groups all Lombardy's chambers of commerce.

The importance of foreign markets is certainly a leitmotif among local businessmen. And exports account for about 50 per cent of aggregate turnover among the province's companies.

A strong local financial structure is another part of the story. Bergamo houses three substantial banks: Banco Popolare di Bergamo, Banca Provinciale Lombarda and Credito Bergamasco.

All have deep roots in local business. Indeed, the attraction of the local financial market, which in turn reflects the entire province's economic well-being and prospects, was shown last year when Crédit Lyonnais, of France, paid a massive \$390m for an almost 49 per cent stake in Credito Bergamasco, a bank, which has just 89 branches and about



Bergamo: the Venetian legacy

1,500 staff, including its Venetian subsidiary.

"The health of the local economy is reflected in unemployment of just 2.3 per cent," notes the bank's spokesman, Mr Giuseppe Berna.

That is well below the 5.1 per cent average for Lombardy, and reflects a bedrock of permanent unemployment, adds Mr Costantino Simoncini, the laconic president of the local Chamber of Commerce. "To all

intents and purposes, we have full employment."

In fact, a lack of qualified staff is becoming a problem. Attempts to improve matters by establishing a new science faculty at the city's university, which at present teaches only the arts, or to found an engineering-based polytechnic have yet to bear fruit. Milan, which has the nearest science faculty, can barely cope with its own demand.

The pull of a nearby metropolis is another potential handicap, admits Mr Cristofolini, although he thinks that as many people commute into Bergamo from the hinterland as travel to work in Milan.

But most local businessmen would like to see transport links improved. The main east-west railway runs through Treviglio to the south, limiting Bergamo to local trains.

Although an inconvenience to travellers, the damage is much greater to local industry, as virtually everything has to be shipped by road. A new container centre outside town has finally been approved, but improvement of the railway would be the local businesses' biggest boost.

Domestic water one day in six

CALTINASETTA is a not particularly edifying mix of old brick and modern concrete, which sits on a rather steep hillside at the geographical heart of Sicily.

The town may not rate a mention in any Michelin guidebook, but it has at least two claims to fame: its inhabitants have the lowest per capita incomes of any provincial capital (about L11bn), and it is the home of that most glorious of Italian digestifs, the amaro Averna.

Lovers of this dark, rather soupy liquid, whose first taste resembles the cough medicine of one's youth, may find it hard to credit that Caltinasetta remains an economic failure despite the success of the Averna family in transforming a local brew into a national name.

In fact, the town exhibits almost all of the characteristics of the underdeveloped south, ranging from a large scarcity of manufacturing industry to an excessive dependence on state transfers of one kind or another.

The province as whole has

just one sizeable employer for its 282,000 population — the Enimont chemicals plant, at Gela, with 2,000 workers — and a great deal of small-scale fragmented agriculture, largely grains or horticulture.

Officially, unemployment runs at 25 per cent; but two prominent local politicians, Cosimo Cigna, the president of the province, and Salvatore

been developed for capturing fresh water and developing wells.

Following two years of drought, water is now available for domestic use in Caltinasetta for one day in six. The politicians are now talking about the need for a desalination plant at the coast, but, as one housewife said, "We are reconciled to the fact that we

John Wyles observes the economic plight of CALTINASETTA

Vizzini, a former mayor of Caltinasetta, reckon it is much, much lower. "Signing on as unemployed is one thing. In fact, the great majority of people are quietly working," says Mr Vizzini, a Clement Attlee look-alike with an indulgent smile.

If there is more than a little complacency behind the smile, that is a characteristic of many southern Christian Democrats. Take the problem of water, which has always been in short supply in Caltinasetta, as in most parts of Italy. Some improvements have been made in aqueducts and piping, but no co-ordinated policy has ever

shall be living without water for many more years."

Even the Averna plant, which employs more than 100 people and buys in its supplies from private sources, is having difficulty in meeting its requirements. But, as Mr Tullio Giarratano, director of the town's Union of Industrialists, points out, "industrial development is very difficult to sustain without water." And it is no easier, he adds, without a decent railway system and without a public administration which has any sensitivity to entrepreneurial needs.

Mr Giarratano's association counts 125 members through-

out the province, each with 10 or more employees and an average turnover of L5bn-6bn.

No one, it seems, sees these activities as offering much further growth potential. Indeed, the planning arm of Italstat, the state civil engineering group, has devised a development plan for the province which will seek to encourage more artisanal activity but

believes that real entrepreneurial energies must come from the outside.

"The conditions for industrial development do not exist here," says Mr Cigna, listing among the obstacles a native entrepreneurial spirit.

"We have some examples of spontaneous entrepreneurialism, but too much is suffocated by the politicians," counters Mr Giarratano. He points out that Caltinasetta is not borne of an agricultural culture, having been the centre of Sicilian sulphur mining until it ceased to be economic and was thus forced to shed its 9,000 labour-force over the last

30 years. This yields one clue to the very respectable level of material consumption among the town's 62,000 people, who are served by all of the standard Italian designer stores and car dealerships.

The state was not ungenerous with the sulphur miners, many of whom were able to retire early on so-called disability pensions, said to be worth up to L2m a month. Add in several thousand other dependents of the state in the communal, provincial and parastatal bureaucracies — many of them transparently underemployed — and you have the elements of a population on maintenance of one kind or another.

Within the town, there is a manifest reluctance to blame its economic backwardness on the mafia. Some shopkeepers may well pay protection money, but the burden is nothing like as serious as in Palermo or Naples. The most typical response is to acknowledge that the mafia is a deterrent to inward investment in Sicily, but then to minimise its significance. Provincial president Cigna summed up with a dismissive shrug, "The mafia is in Rome, in Milan, in Genoa — it is everywhere these days."

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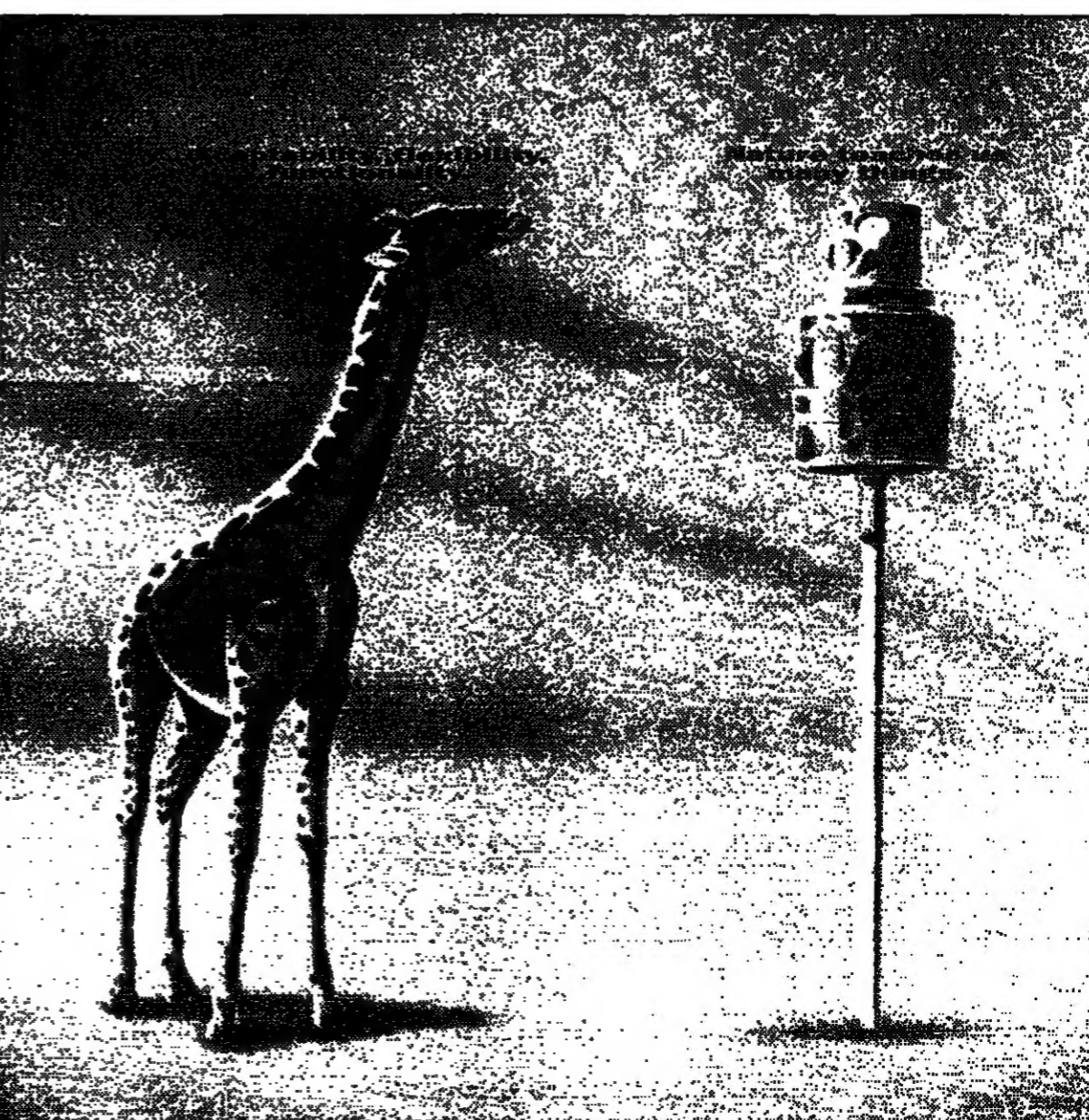
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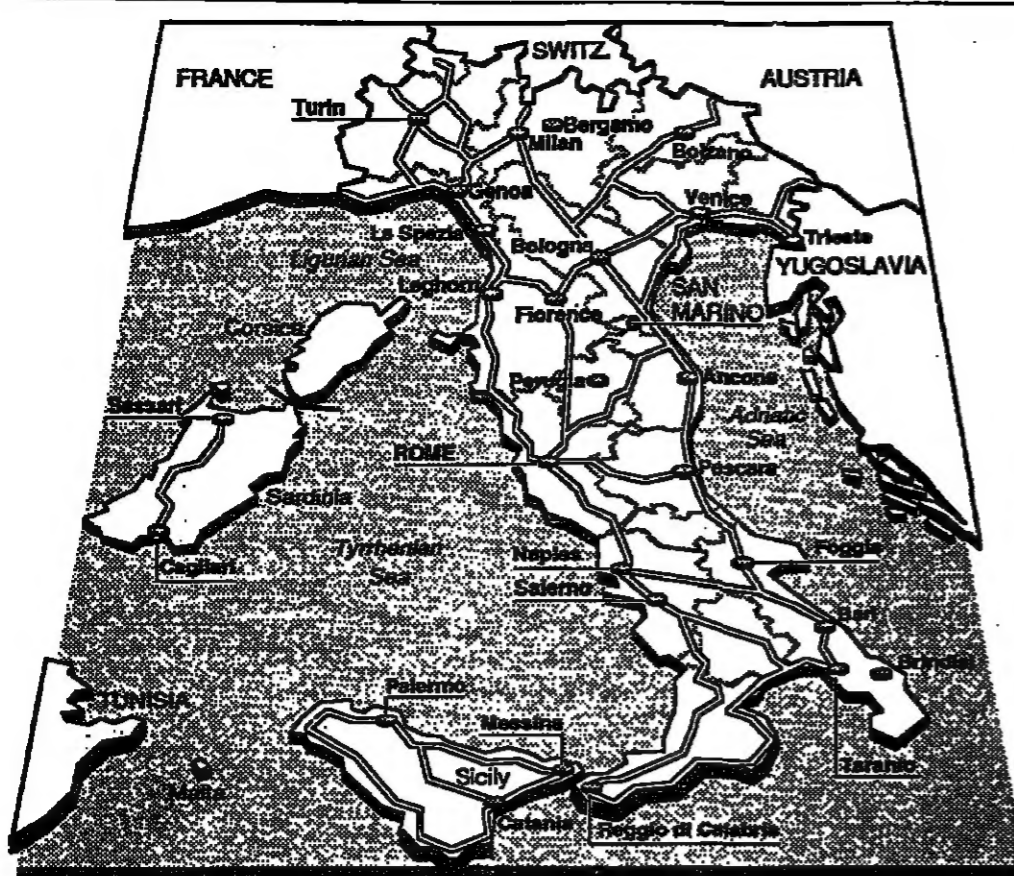


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ITALY 10



KEY FACTS: 1989

GDP (L'000bn)	1,160,000 (1,079,000)
Real GDP (L'000bn)	1,221,430 (891,994)
Real GDP growth	3.3 per cent (3.9 per cent)
Current Account (\$m)	-10,932 (-4,373)
Merchandise exports (\$m)	140,697 (129,513)
Merchandise imports (\$m)	162,977 (138,400)
Trade Balance (\$m)	-12,280 (-9,900)
Consumer prices increase 1988-89	6.2 per cent
1987-88	5.1 per cent
1979-89	11.4 per cent pa

(1988 figures in brackets)

CURRENCY:	
Average Exchange Rates (1989)	L1,372.1 = \$1
(1988: L1,301.6); L2,246.9 = £1 (1988: 2,314.4)	
PRINCIPAL EXPORTS: 1988 (\$bn): Engineering Products 42.5; textiles, clothing, leather products 23.2; transport equipment 12.1; metals & minerals 11.5; chemicals 11.1.	
PRINCIPAL IMPORTS 1988 (\$bn): Engineering products 32.0; chemicals 17.7; metals & minerals 18.1; energy 14.7; food 11.7; transport equipment 14.2.	

Source: IMF and Bank of Italy

Readers go to the fair

WIMBLEDON means tennis to many people, but to readers of the Rome daily, *La Repubblica*, it is a complicated literary game which appears at the back of the paper's weekly colour supplement *Venezia* (Friday).

Since its launch 13 years ago, *La Repubblica* has done much to push the reading habit in a country not much addicted to it - a recent *Corriere della Sera* survey re-

LITERATURE

vealed that only 50 per cent of Italians ever opened a book.

Few Italian novelists have made a real impact abroad, apart from the omnipresent Umberto Eco and, possibly, Primo Levi, whose *If this is a Man*, published in 1947, only appeared in English translation in 1958.

The figures quoted at Italy's first national book fair, which opened in Turin two years ago, come as no surprise: 25 per cent of all Italian publications are translations, which in turn make up nearly 75 per cent of Italian publishing sales.

Gian-Carlo Ferretti, author of *Il Best-seller all'italiana*, claims there have been only three truly successful Italian novels published since the war: Umberto Eco's *The Name of the Rose*, which sold 2m copies in Italy and 10m worldwide; Elsa Morante's *La Storia*, which came out in 1974; and Giuseppe Tomasi di Lampedusa's *The Leopard* (1958).

But in the last two years a good deal has changed. Italians are reading more. There has been a proliferation of national book-fairs: Turin opened two years ago, Naples last year and

Florence this spring, as well as the long-established and thriving Bologna Children's Book Fair.

New bookshops, such as Feltrinelli's super-modern, three-storey branch, which opened in Rome's historic centre earlier this year, are bringing a breezy approach to bookselling.

The literary scene is still dominated by the three giants: Umberto Eco (who thought the English version of the *Rose* better than the original), Italo Calvino, and the Sicilian Leonardo Sciascia, who died suddenly last November.

In some ways a lonely and isolated figure, Sciascia was rightly admired for his integrity and his balanced and merciless analyses of unpleasant facets of Italian life, notably the Mafia. Two posthumous works appeared in January.

The greatest gap in the Italian publishing market - that catering for middle-brows who simply want a good read - has been filled in the last five years by a band of skilled specialist journalists.

These include sociologists such as Francesco Alberoni, who writes a weekly column for *Corriere della Sera*; computer expert Luciano De Crescenzo, whose entertaining, debunking colloquial-style *History of Greek Philosophy* is a new departure for the Italian market; and readable modern history by journalists such as Indro Montanelli and Enzo Biagi.

Giulio Andreotti, the prime minister, has rarely failed to hit the best seller lists in recent years with his series of reminiscences, *Visto da Vicino* (Seen from close quarters).

But the real news of 1989 has

been provided by women. They were prominent in the best-seller lists and dominated the Christmas choices of the critics. A woman, Donatella Barbieri, has taken the place of Italy's best-known literary agent, the late Erich Lindner, and Roberta Mazzanti has started *Astrea*, the Italian equivalent of *Virago*, as a publisher of female authors, under the umbrella of the publisher, Giunti.

Many who emerged last year are not in their first youth. These included Rosetta Loy, who won three prizes in 1988 (the Viareggio, Rapallo and the Supercampello) for her *Le Strade di Polvere*, nor first-time authors, such as Clara Sereni, whose *Casalinghitudine* (Domesticity) was published in 1987.

Clara Sereni's latest, *Mancino Primavera*, came third in last year's Strega award: no mean feat considering the quality of the competition. Clara Sereni is caustic, however, about the selection committee behind the prize. Her book, a series of short stories all recounting painful experiences of one kind or another, was described by one of the judges as "most amusing". No one, she says, who had read the book could have thought it funny.

Francesca Duranti, winner of last year's Campiello prize, feels that the recent successes of women should be kept firmly in perspective, quoting Susan Sontag's dictum: talent has no sex. Sex may be irrelevant, but any radical change in the market is surely a sign of vivacity.

Jennifer Grego

Still behind in top jobs

FOUR NEW magistrates were recently assigned to the prosecutors' office in Lodi, a city in one of the most crime-ridden areas of Calabria, in the south. All were young women under the age of 35.

Like the recently announced plans of the Carabinieri military police corps, to open at

WOMEN

least its lower ranks to the gentler sex, it was a sign of the changing role of women in a once traditional society.

A traveller returning to Italy after 15 years would immediately be struck by the changes. Heavily-armed women police officers share patrol cars and foot-duties with male officers. Female bus drivers and airline pilots have made their first appearance. Long-haired females in jeans and leather jackets no longer sit primly on the back of motor-cycles, but drive them.

The 1977 law on parity in the workplace guarantees Italian women equal salaries and benefits. And a new family law ended centuries of male dominance of the family.

But there is still a lot to be done, says Tina Anselmi, a member of parliament who is president of the Government's national commission for equality between women and men. Moreover, the shift in women's values - toward work and autonomy and away from family and dependence - is not painless, and is likely to have a profound effect on demographic and social structure.

For example, with more women being lured into the job-stream, fertility rates have declined to a record low; marriages are dropping; households are becoming smaller; and separations and divorces are rising, albeit slowly. New female graduates, along with divorced or separated women, are swelling the ranks of those looking for first jobs.

Between 1981 and 1988, female unemployment rose from 14.4 per cent to 16.7 per cent. In addition, while women represent 51.3 per cent of the population, they still make up only 34 per cent of the workforce.

"If you consider that Italian women only got the vote in 1945, then it is clear that they have come a long way," says

Tina Anselmi, a former Christian Democrat Minister of Labour. She cites as particularly encouraging the fact that 50 per cent of high school students are now women, and that in the last two years more women high-school graduates than men have taken jobs.

"But when it comes to the role of women in our institutions and decision-making centres, we are still lagging behind," she says. Although 12.7 per cent of Italy's members of parliament are women - more than in either the UK or the US - they are poorly represented in the command posts of political parties, unions and banks. Women make up only 6 per cent of municipal or regional representatives. Only 200 of Italy's 8,091 mayors, and 400 of its 5,260 state managers are women.

The commission is encouraging political parties to run more women for office in next month's local elections. After pressure from their women's section, the Communists pledged to fill 50 per cent of the slots in its party lists with women; and other parties are moving in the same direction.

The major change seems to be in attitude. Sociologists report that, few women between the ages of 14 and 24 now aspire to be housewives. Today, more girls than boys continue their studies beyond compulsory education. And if 80 per cent of students enrolled in liberal arts schools at Italy's universities are still women, females now account for 50 per cent of those enrolled in university science faculties.

But cultural stereotypes still exist. A new study by Maria Kichelmacher shows that women over 45, particularly those with little formal education, still base their daily life on traditional values and roles.

And many men, and women, are still reluctant to vote for women. One of the most difficult goals will be to reconcile women's right to work with their family responsibilities, says Ms Anselmi. "We need things like flexible work-hours and greater social assistance. But it's not always easy to convince male decision-makers that things are really important."

Seri Gilbert

Anxiety before kick-off

ALTHOUGH ITALY was allocated this year's World Cup finals as long ago as 1984, serious preparations began only in 1988. Most of the construction and reconstruction, to prepare the 12 stadiums, has been effected only in the last 12 months. Much is still going on, and the stadiums in Rome, Palermo, Naples and Florence will be ready only days before kick-off.

The month-long sports spectacular involves 24 nations, 528 players, 52 matches, 6,000 journalists, 2m tourists and 15bn viewers.

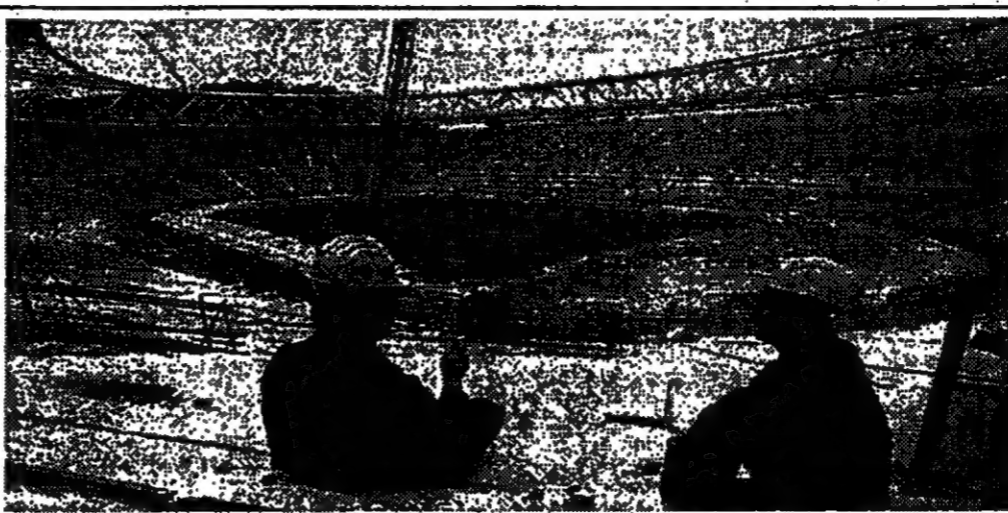
The organising committee has had to face a tide of indecision, changes of plan, strikes, 16 building-site deaths, and political wrangles. Turin's *giants* fell at least twice, because of rows about the spiralling cost of its new stadium. Naples and Florence have compromised their entire World Cup by slow decision-making. Central government funding (originally made

available only in July 1988) shrank from an initial £2.75bn to £1.35bn nine months later, when the original ministerial decree was not ratified in parliament within the statutory time-limit of 60 days. Meanwhile, on many of the 130 projects in the 12 host cities, time has been lost.

RAI, Italian state television, is well able to provide fine coverage. However, the crews need access to the stadiums well in advance, in order to run tests and experiments. Yet work on Rome's Olympic stadium (pictured), for example, site of the final, will finish only eight days before the first game.

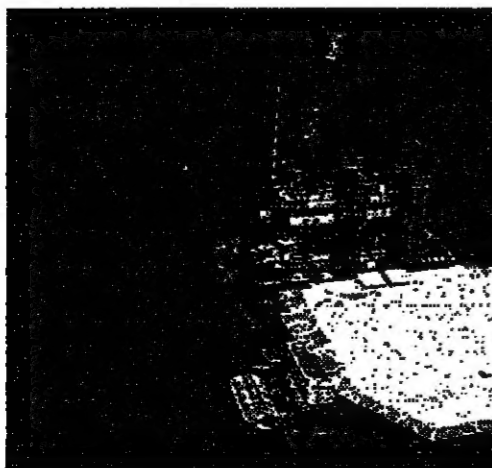
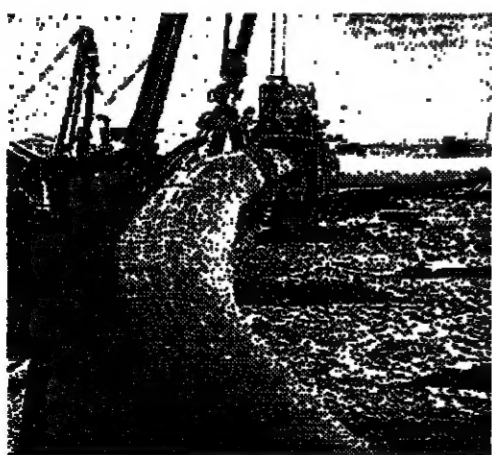
The *Olimpico* has proved to be the biggest scandal so far, the cost of its reconstruction having spiralled from £40m to probably more than £90m. Bari and Turin, in contrast, have built new stadiums for £51m and £50m respectively.

-Patrick Agnew



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